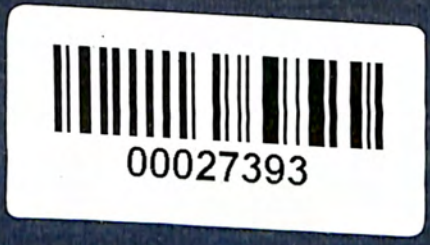
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AMERICAN

POLITICAL ECONOMY;

INCLUDING STRICTURES ON

B2808

THE MANAGEMENT OF THE CURRENCY

AND THE FINANCES SINCE 1861

WITH A CHART SHOWING THE FLUCTUATIONS IN THE PRICE OF GOLD.

BY 27393

FRANCIS BOWEN,

ALFORD PROFESSOR OF NATURAL RELIGION, MORAL PHILOSOPHY, AND CIVIL POLITY IN HARVARD COLLEGE.

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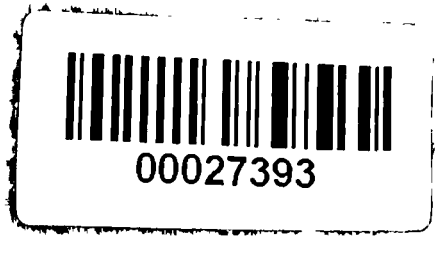

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PREFACE.

DURING the last eight years, the United States have been trying experiments in the management of the Currency, in Banking, Finance, and Taxation, on a larger scale than the world had ever witnessed. The trial has cost the country much; we have not yet recovered from its consequences, and probably it will yet be long before we shall cease to feel them. But the experience thus gained has been valuable for the interests both of science and of practical legislation. It has thrown much light on the theories of Currency and Finance, which are the most interesting, because the most practically important, portions of the science of Political Economy. It has demonstrated by the logic of facts some of the main doctrines in these theories, disclosed some important qualifications of maxims formerly received, and raised questions of broad scope for further inquiry. I have here endeavored to bring together the results of these experiments, and to read the lessons which they teach. The book is to be regarded more as a new work, than as a new edition of the volume which I published, fourteen years ago, under the title of "Principles of Political Economy." Several chapters have been added, others suppressed or rewritten, and the remainder much condensed and modified.

The title under which the book now appears may seem to require defence or explanation. I hold, with Mr. Samuel Laing, that "every country has a Political Economy of its own, suitable to its own physical circumstances of position on the globe," and to the character, habits, and institutions of its people. Unquestionably there is a universal science of

Political Economy, applicable not only to America, but to France, England, and Germany, — to all nations under the sun. There must be such a science, for the habits and dispositions of men, as manifested in the pursuit of wealth, may be reduced to general principles, and thus become subjects of legitimate scientific classification and inquiry, just as much as those other habits and dispositions which appear in the constitution and history of organized society, and which, when generalized and classified, become the science of Politics. There is a general science of Human Nature, of which the special sciences of Ethics, Psychology, Politics, and Political Economy are so many distinct and co-ordinate departments. It is the science as taken in this broad sense which such writers as Ricardo, Malthus, McCulloch, and J. S. Mill have endeavored to develop and to teach; though, as it seems to me, with very limited success. They have even assumed to treat it deductively, deriving its principles from their knowledge of human nature, and tracing these down to the outward conduct of men and to the social phenomena which these general motives produce or influence.

But it must be admitted, I think, that these universal principles are comparatively few and unimportant, and if the science were limited to them, it would be of narrow compass and limited utility. It can be fully and profitably set forth only in the inductive method, by observing and analyzing the phenomena in a particular case, and tracing these up to their sources, the circumstances of the people and the principles of human nature in which they originated. Because Adam Smith, in the main, adopted this method, his great work is a mine of information respecting the economical condition of Great Britain in the middle of the last century, and the institutions and laws by which this condition was affected. Even the writings of Ricardo, J. S. Mill, and their followers, though professing to treat the subject deductively and in the abstract, so that their conclusions shall be universally applicable, are pervaded with a tacit reference to the circumstances and institutions of the particular people for whom

they wrote. The system which they have expounded is really the Political Economy of England alone, and is even more characteristic and peculiar than her social organization and civil polity. Here in America, as it seems to me, we need an American Political Economy, the principles of the science being adapted to what is special in our physical condition, social institutions, and industrial pursuits. The facts need to be fully presented, before they can be analyzed and referred to their scientific principles.

Political Economy is eminently a practical science, and a treatise on it may profitably include much valuable information respecting the habits of business, the course of domestic and foreign trade, and the methods which have been suggested by experience for applying Labor and Capital to the best advantage. I have endeavored to incorporate into this work such particulars respecting the operations of banking, the disposal of the public lands, the office of bills of exchange, the functions of the currency, the supply of the precious metals, the various modes of taxation, and the financial history of this country for the last ten years, as might be useful, not only to young men in College, but to those who are about to enter the mercantile profession.

CAMBRIDGE, February 24, 1870.

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POLITICAL ECONOMY.

CHAPTER I.

WEALTH AND ITS TRANSMUTATIONS: THE AIMS, THE LIMITATIONS, AND THE ADVANTAGES OF POLITICAL ECONOMY: THE LAISSEZ-FAIRE, OR LET-ALONE PRINCIPLE.

THE most obvious, though certainly not the most important, difference between a civilized community and a nation of savages consists in the vastly greater abundance, possessed by the former, of all the means of comfort and enjoyment. These means, including the necessaries, conveniences, and luxuries of life, are chiefly *material* objects, — such as manufactured goods, articles of food and clothing, ships and buildings, the useful and the precious metals, tools and machines, and ornaments, or things designed to gratify the taste and the senses. Some, however, are *immaterial*, and yet are just as much objects of desire, just as much objects of barter and sale, as cloth and bread. The legal knowledge and acumen of a lawyer, for instance, the vocal powers of a remarkable singer, the mimetic talent of an actor, all command a price in the market quite as readily as any goods in a shop. When an occasion arises, we buy the services of a lawyer or a physician, just as we buy a ticket to a concert, or an instrument of music for a drawing-room.*

* Many Political Economists exclude *immaterial* products from their definition of wealth, because the labor which is devoted to such products "ends in immediate enjoyment, without any increase of the accumulated stock of permanent means of enjoyment." "When a tailor makes a coat and sells it," argues Mr. J. S. Mill, "there is a transfer of the price from the customer to the tailor, and a coat besides, which did not previously exist; but what is gained by an actor is a mere transfer from the spectator's funds to his, leaving no article of wealth for the spectator's in-

Now, the aggregate of *all these things, whether material or immaterial, which contribute to comfort and enjoyment, which cannot be obtained or produced without more or less labor, and which are objects of frequent barter and sale,* is what we usually call WEALTH; and individuals or nations are denominated rich or poor, according to the abundance or scarcity of these articles which they possess, or have at their immediate disposal.

Two questions may be asked respecting the production of these articles: — 1. By what mechanical processes are they manufactured or obtained? To answer this query is the business of a man of practical science or an artisan, — of a chemist, a mechanic, or a farmer; as Political Economists, we have nothing to do with it. But (2.) we may ask, *On what principles do men readily exchange these articles for each other; and what motives, what general laws, regulate their production, distribution, and consumption?* Political Economy undertakes to answer this question, and is therefore properly considered as one of the Moral Sciences. It depends, quite as much as Politics and Ethics, upon the principles of the human mind. It is quite as possible to reduce to general laws the habits and dispositions of men, so far as they are manifested in their efforts for the acquisition of wealth, as it is to develop, from observation and consciousness, the laws of our moral constitution. Political Economy begins with the supposition that man is disposed to accumulate wealth beyond what is necessary for the immediate gratification of his wants, and that this disposition, in the great majority of cases, is, in fact, unbounded; that man's inclination to labor is mainly controlled by this desire; that he is constantly competing with his fellows in this attempt to gain wealth; and that he is sagacious enough to see what branches of industry are most profitable, and eager enough to engage in them, so that

domnification." We reply, that *the purchaser obtains only a gratification of desire in either case.* From the coat, he has *moderate enjoyment prolonged for some months;* but he might do without it, and work in his shirt-sleeves. From the theatre, he has *keen enjoyment, that lasts only a few hours;* and he may prefer such pleasure to the luxury of additional clothing. It is inconsistent to give the name of wealth to what pleases our palates for a moment, and deny it to what gives keener pleasure to our ears. The characteristic of all wealth is, directly or indirectly, to satisfy some want, or gratify some desire. Food which is ready to be eaten is wealth, just as much as the knives and forks with which we eat it; though the former is devoured at once, and there is an end of it, while the latter may remain in daily use for years.

competition regularly tends to bring wages, profits, and prices to a level. The science, then, is more closely allied with the Philosophy of Mind than with Natural History, or the Physical Sciences. It has been called *Catallactics*, or "the Science of Exchanges"; and, agreeably to this notion, man himself has been defined to be an animal that makes exchanges; "as no other, even of those animals which, in other points, make the nearest approach to rationality, has, to all appearance, the least notion of bartering, or in any way exchanging one object for another."

With regard to the articles that constitute wealth, we observe that far the larger portion of them are perishable, or quickly consumable. Some of them, like the immaterial products, are consumed at the instant that they are produced; others, like articles of food, last a little longer, but perish if not quickly used. The fashion and the fabric of manufactured goods soon decay and pass away, the former being often more short-lived than the latter. Tools and machinery wear out; houses and other buildings need constant repair, and, at stated intervals, must be wholly renewed. Hardly anything but the solid land itself — the great God-given, food-producing machine — is permanent; and *the exchangeable value* even of the land (the only quality of it which we have to consider in this science) quickly diminishes, and almost wholly disappears, if it be not kept up by the constant application of labor and capital, or by the continued prosperity of the community who live upon it. The best-situated land in a populous city may be worth $60 or $70 a square foot; but if the other articles which constitute the wealth of that city — the ships in her harbor and the goods in her shops — were not perpetually renewed, the land would deteriorate in value with great rapidity; and if the city should become, in respect to population and business, a small and decaying village, the land might not be worth $40 an acre.

Wealth, then, must be perpetually renewed, or it quickly disappears. The stock of national wealth is like the flesh, blood, and bones of a man's body, which are in a state of constant flux and renovation. Physiologists tell us that our bodies are entirely renewed about once in seven years; but the riches of an opulent community are not so long-lived even as this. Let labor universally cease, let every man, woman, and child rest with folded arms, or do nothing but eat, drink, and be merry, — and those riches would

melt and waste like snow under a July sun. National wealth, then, may be more fitly compared to a given portion or section of the waters of a running stream. The water is always changing, yet, in one sense, is always the same, so long as the supply from above is maintained; but if the springs in the upper country should be dried up, the efflux below would soon drain the channel.

And here is one proof, among a thousand others, of the folly and ignorance of those who cry out against the institution of property, and call for an equal distribution of all the wealth of a community among all its members. "Riches have wings" in a far more immediate and practical sense than these people are aware of. They always talk as if the national wealth was a fixed and imperishable quantity, like the land, the sunlight, and the air; and as if, unlike these, it was monopolized by a few, though really sufficient for the wants of all. Their blunder is as great as would be that of an ignorant rustic, who, after visiting the market of a populous city on the Mondays of two successive weeks, and observing that the stalls presented almost precisely the same array of meats and vegetables, in the same order, should conclude that there had been no change, and that, as here was a permanent stock of food enough for all, while some families in the city were suffering from hunger, a general and equal distribution of this stock, without compensation to the owners, should be ordered, under the idea that it would make any future want of provision impossible. The possibility that this great store might all be consumed in one day; that the dealers, deterred by this spoliation, might not supply the market at all on the next day; and that many indigent families, suddenly finding all their wants supplied without any effort on their part, would give up labor altogether, — would never occur to him.

"This perpetual consumption and reproduction of capital," says Mr. J. S. Mill, "affords the explanation of what has so often excited wonder, — the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war. An enemy lays waste a country by fire and sword, and destroys or carries away nearly all the movable wealth existing in it; all the inhabitants are ruined, and yet, in a few years after, everything is much as it was before. This *vis medicatrix naturæ* has been a subject of sterile astonish-

ment, or has been cited to exemplify the wonderful strength of the principle of saving, which can repair such enormous losses in so brief an interval. There is nothing at all wonderful in the matter. What the enemy have destroyed would have been destroyed, in a little time, by the inhabitants themselves; the wealth which they so rapidly reproduce would have needed to be reproduced, and would have been reproduced, in any case, and probably in as short an interval. Nothing is changed, except that, during the reproduction, they have not now the advantage of consuming what had been produced previously. The possibility of a rapid repair of their disasters mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time, and are not starved afterwards, [and if their exertions are not paralyzed by the dread of a similar quickly recurring calamity,] then, with the same skill and knowledge which they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired, or only partially injured, they have nearly all the requisites for their former amount of production. If there is as much of food left to them, or of valuables to buy food, as enables them, by any amount of privation, to remain alive and in working condition, they will, in a short time, have raised as great a produce, and acquired collectively as great wealth and as great a capital, as before, by the mere continuance of that ordinary amount of exertion which they are accustomed to employ in their occupations. Nor does this evince any strength in the principle of *saving*, in the popular sense of the term; since what takes place is not intentional abstinence, but involuntary privation."

This pregnant truth, that the whole stock of national wealth is in a constant and rapid process of consumption and reproduction, is generally lost sight of, because we see that *the fortunes of individuals*, the aggregate of which constitutes the national stock, are comparatively permanent, and, *as it seems*, do not need to be perpetually renewed. If once raised considerably above a mere competence, and then "invested," as the phrase goes, with ordinary care and judgment, a man's property will continue apparently without change, all the while yielding its regular income or increase. How can this fact be reconciled with the principles that have just been stated respecting the nature of all wealth? The

answer to this question brings us at once to the heart of the subject.

It is the *property*, the *ownership*, that is unchanged, and thus the fortunes of individuals remain intact; the articles which are the subjects of that property, — which are owned, — and which, at any one time, constitute *the wealth*, are constantly changing; they are used up, and then renewed, without the owner's co-operation, and often even without his knowledge. Barring casualties, unlucky investments, and the like, (which, being comparatively few and infrequent, may be left out of the account,) no man's property is consumed without being replaced by the very act of consumption, unless he himself, consciously and wilfully, consumes or expends it *unproductively*; — that is, upon the gratification of his own tastes and appetites, without looking for a return or replacement. To "invest" one's savings is to *lend* them. Not having time, inclination, or perhaps ability, to use them reproductively to advantage, — that is, to superintend the constant changes of form which they *must* undergo, or quickly perish, — we lend them to others, who can and will direct their transformations, on condition of receiving a small portion of the profits of these changes. For it is also the nature of wealth, when well managed, to *grow*, or increase, by each change of form.

To make this clearer, we will analyze a single instance, — the simplest one that can be found. If the earnings of an artisan for a year have amounted to $ 300, he *may* expend them all upon food, clothing, and amusement. In this case, he spends them all *unproductively*, — that is, without expecting a return or replacement of them. At the year's end, all the advantage which *remains* to him from his year's labor is, that his strength, health, and spirits are renewed or replaced, so that he can now go to work and earn another year's wages.

But suppose that he is frugal, and ambitious to grow rich. He will then contract his daily expenses, drink nothing but water, give up all amusements, and thus, at the end of the year, he will find that his health and spirits are even greater than before, and that he has saved perhaps $ 100, or one third of his earnings. What will he do with this $ 100? In a rude state of society, among a half-civilized people, or under the government of a Turkish pacha, property being insecure, he would probably obtain it in

the form of gold or silver coin, and bury it in the corner of his cellar or garden. There, sure enough, it would remain without change, and *therefore* without income or increase. But in this country, in England, or France, he would probably put it in the Savings' Bank; that is, he would *lend* it to the bank, which, for shortness, we will suppose to be a bank both of savings and discount. In consequence of this loan, the bank will be able to lend or discount $ 100 more to one of its customers. Suppose a baker wishes to extend his business, but has not capital enough of his own to buy more flour with. He borrows this $ 100 of the bank for four months, and with it he immediately purchases twenty barrels of flour more than he could otherwise have purchased. What he borrows of the bank is not, in fact, the $ 100 bill which is handed to him across the counter, but the twenty barrels of flour which he buys with it; the bank-bill being only a ticket or certificate, in which the bank directors say to the flour-dealer, "Deliver this man twenty barrels of flour, and we will pay you for it." The flour-dealer complies, and immediately carries back the bill to the bank, and is paid for it either in hard specie, or in that amount carried to his credit, or in any other form that he may prefer. We may put aside, then, in future, any consideration of the bank-bills; for they are nothing but *tickets of transfer*, or orders from the bank to any merchant, asking him to deliver the bearer a certain amount of goods, and the bank will pay him for them.

But let us follow the laborer's $ 100 of savings. In what form do they now exist? Evidently they have become twenty barrels of flour, which the baker gradually transforms into many loaves of bread, and sells them to his customers. Before the four months expire, the bread is all sold and eaten; so that the $ 100 are now fairly consumed. But has their *value* disappeared? By no means. The baker's customers have paid him for this bread at least $ 120, so that he can now repay the bank the $ 100 that he borrowed, — with the addition of two dollars for four months' interest, — and put eighteen dollars into his own pocket as the reward of his labor. The bank, being again in funds, can now lend, we will suppose, $ 102 worth of leather, for four months, to an enterprising cordwainer, who begins immediately to manufacture it into boots and shoes. Before *his* four months have expired, these are all sold, (half of them, perhaps, are half worn out,) and he has received,

it may be, $ 225 for them; so that he can now repay the bank its loan of $ 102, besides two dollars and a fraction for interest, pay his workmen probably $ 100, for a good deal of labor was needed for the consumption of that amount of leather, and put a little more than twenty dollars into his own pocket. At the end of eight months, then, the bank has a little over $ 104 to let out for another period of four months. A paper-maker borrows this, buys rags with it, makes paper out of them, sells it, and with the proceeds he pays the bank $ 106 and a fraction.

The year has now expired, and our frugal laborer, having occasion to make a different use of his savings, goes to the bank for them, and receives $ 104.50, the bank retaining nearly two dollars as compensation for its agency in the affair. Thus the laborer finds that, by some process incomprehensible to him, the $ 100 which he deposited in the bank for a year has hatched $ 4.50, which it certainly would not have done if it had been simply locked up in the vault for safe-keeping. Could he have followed that process, he would have seen his $ 100 successively becoming, or assuming the shape of, flour, bread, leather, shoes, rags, and paper; and in each of these forms, in turn, he would have seen it entirely consumed or used up. The flour, leather, and rags have been manufactured into corresponding articles, the bread has been eaten, the shoes are half worn out, and the paper is covered with writing and printing, so that a new supply of each is called for. There has been a net gain at each stage of the transaction, and the total gain has been fairly distributed among all the parties to it, compensating each for his labor or frugality.

If any one thinks the instance here analyzed is a trivial or exceptional one, so that it throws little light on the general theory of wealth, let him look at the returns made to the Legislature by all the Savings' Banks in Massachusetts in 1862, which show that the amount deposited in those institutions exceeded $ 50,400,000; that it yielded an annual average dividend of over six per cent; and that the number of depositors was 248,900, so that the average amount to the credit of each depositor was a fraction over $ 202. This aggregate of savings — made up, be it remembered, by the labor and frugality of Irish domestics, small mechanics, day-laborers in the country, and the like — is more than enough to build and keep in motion all the cotton and woollen factories in Massa-

chusetts; as the aggregate capital of all these establishments in that State, in 1865, fell short of forty-nine millions. Observe, also, that large sums are annually withdrawn from these institutions, for productive investment in other ways, and the deficit thus made is immediately supplied by fresh deposits; so that these Savings' Banks resemble great lakes, in which the water ever remains at the same level, though they are constantly supplying running streams, which bear a fertilizing influence with them all their way towards the ocean.

We now go back to the principle first enunciated, and which seems to be firmly established, — that the whole wealth of a civilized nation is in a state of constant flux and renovation, the apparent stability and unchangeableness of the fortunes of individuals offering no exception to this principle. The instance analyzed also proves that a profit, an addition to the national stock, is made only at and by these successive changes of form. What is inconsumable is also necessarily unproductive. We consume in order that we may produce, and we *must* consume before we *can* produce. The wealth which is *literally* locked up or buried only rots or rusts; and we might just as well bury only stones or sand in its place. But money or wealth is *not* locked up when placed in banks, institutions for savings, — moneyed corporations, as they are called, — and the like. These institutions are nothing but contrivances for collecting it, setting it in motion, and making it circulate around us, like the atmosphere which we breathe. The wealth which would otherwise be scattered in many little hoards, remaining idle because owned by those whose circumstances would not allow them to use it to advantage, or because the separate sums were too small to admit of a profitable application, is, by these means, brought together and made as efficient as the vast accumulations of great capitalists. The aggregate thus formed is made to do its full part in supplying the lungs of industry, keeping it alive and active, and making all the parts of the body politic and social contribute to the sustenance and growth of the whole. The fifty millions in the Savings' Banks, and the sixty-seven millions of capital in the banks of deposit and circulation, (I speak only of Massachusetts,) do not rest there, but are, at this moment, circulating around us, — driving the wheels of our factories, supplying our mechanics with tools and our tradesmen with goods, building and freighting our ships,

bringing to us the productions of all habitable climes, hurrying from one task to another with indefatigable ardor, and assuming a thousand different forms and hues, according to our necessities and desires.

"What is annually saved," says Adam Smith, "is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends is, in most cases, consumed by idle guests and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves (as, for the sake of the profit, it is immediately employed as a capital) is consumed in the same manner, and nearly in the same time too, but by a different set of people, — by laborers, manufacturers, and artificers, who reproduce, with a profit, the value of their annual consumption."

We are now entitled to assume that the theory of wealth is a large and complicated one, embracing many curious and difficult problems, and resting upon many general principles or laws, the discovery and development of which constitute a distinct and important science. One of these laws or general facts — the transmutations of capital — has been pointed out and briefly elucidated. And we perceive that it is a fruitful one, pregnant with important conclusions and inferences respecting the institution of property and the modes of favoring industry and increasing national wealth. If the science has been successfully cultivated, many more such general laws must have been discovered in it, a knowledge of which is important to the statesman, the merchant, and the philanthropist. As Political Economy is expounded in the books, whether by Adam Smith, Ricardo, Sismondi, or Mill, it may, or may not, be well founded and trustworthy in all its parts. Authorities differ on many points. But these men have not been studying a mere chimera, or wasting their energies in a vain pursuit. *There are general laws affecting the production and distribution of wealth*, whether they have been discovered or not; and a knowledge of these laws is a very different thing from the practical knowledge, the acquaintance with details, and the natural shrewdness, which enable a man to acquire property, and to take good care of it when acquired.

And this leads me to remark that Political Economy is not, as many suppose, the art of money-making, any more than meteorology is the art of predicting the weather. It is no *art* at all, but a *science;* for its immediate end is knowledge, not action or the guidance of conduct. The meteorologist says that the phenomena of the atmosphere and the weather, irregular as they are in their occurrence, and obscure as to their immediate causes, must depend on the general principles of gravity and the equilibrium of fluids, and must be referable to general laws, which are legitimate objects of investigation. He may have studied these laws successfully, and still not be so able as an old sea-captain is, who never opened a book on meteorology in his life, to tell what the weather will be the next hour or the next day. It is a point of as much interest and importance to know *how* a storm occurs, as to know *when* it will recur. So, after one of those storms in the commercial world which are known as "commercial crises," we may reasonably seek an explanation of the phenomenon, or the cause of its occurrence, though this knowledge should not enable us to tell when another and similar disturbance will happen.

The general principles of any science are obtained only by abstraction, — by leaving out of view many of the details and particulars which actually belong to the case, and thus so far simplifying it that we can reason about it with facility. The conclusions at which we arrive by this process are very comprehensive, but do not admit of immediate application. *They are true only with certain qualifications and restrictions.* They are involved in all the phenomena to which they relate, and have a share in producing them; but they do not determine the whole of these phenomena.

Political Economy, Mr. Mill remarks, is a *deductive* science, so far as it reasons from assumptions, not from facts. "It supposes an arbitrary definition of a man, as a being who invariably does that by which he may obtain the greatest amount of necessaries, conveniences, and luxuries with the smallest quantity of labor and physical self-denial with which they can be obtained in the existing state of knowledge. It predicts only such of the phenomena of the social state as take place in consequence of the pursuit of wealth. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonizing principles to the desire of wealth, — namely, aversion

to labor, and desire of the present enjoyment of costly indulgences."

"The conclusions of Political Economy, consequently, like those of Geometry, are only true, as the common phrase is, *in the abstract;* that is, they are only true under certain suppositions, in which none but general causes — causes common to the whole class of cases under consideration — are taken into the account. In proportion as the actual facts recede from the hypothesis, the Political Economist must allow a corresponding deviation from the strict letter of his conclusion; otherwise, it will be true only of things such as he has arbitrarily supposed, not of such things as really exist. That which is true in the abstract is always true in the concrete, *with proper allowances.* When a certain cause really exists, and, if left to itself, would infallibly produce a certain effect, that same effect, *modified* by all the other concurrent causes, will correctly correspond to the result really produced."

All legislation which is designed to affect the economical interests of society, or which relates immediately to its commerce, agriculture, or manufactures, is, in truth, an application of the principles of *some* system of Political Economy to practice, be that system a wise or a mistaken one. It is often a very injurious application of them, because the circumstances which actually limit the principles are lost sight of, and the abstractions by which they were obtained are forgotten. Mischief results; and "practical men," seeing that the consequences do not square with the theory, call in question the science itself, instead of attributing the error to the faulty application of it. Hence arises an unhappy dissension between theory and practice, to the lasting detriment of both.

The Political Economists themselves are somewhat to blame for this result, by pressing too eagerly for the reduction of their favorite doctrines to practice, without regard to the particular circumstances of each case. The general doctrine of Free Trade, for instance, which may be correct when applied to two nations which are similarly situated in every respect, which have grown up under the same institutions and the same laws, and in which the profits of capital, the wages of labor, and the ratio of population to territory are nearly on a level, is extended, by a hasty generalization, to two countries that are contrasted with each other in all these re-

spects, and in its application to which, to say the least, the correctness of the principle is very doubtful. We have in this country the largest extension of the system of Free Trade which the world has ever witnessed; we have free trade between Maine and Louisiana, between California and Massachusetts; and no one doubts that the system is equally beneficial to all these States. But before the system is carried out between England and the United States, we may reasonably inquire whether it will not necessarily tend to an equalization of profits and wages in the two countries, and whether it is desirable here to hasten the operation of the causes which are rapidly reducing the rates of both to the English standard. This subject will be considered hereafter; but I may say here, that the question does not relate to the correctness of the general principle in economical science, but only to its applicability under particular circumstances. That all terrestrial bodies gravitate to the centre of the earth is a general law, which is not disproved by the floating of a cork in a basin of water.

Another prejudice against Political Economy has arisen from an error of an opposite character, — from too strict a limitation of it to the causes affecting the *increase* of national wealth, the other interests of a people being undervalued or left out of sight. The English Economists of Ricardo's school have most frequently fallen into this error; looking merely to the creation of material values, they have tacitly assumed that this was the only interest of society, the only end which legislation should have in view. The proposition on which they act, though they seldom directly enunciate it, is, that the augmentation of national wealth is at once the sign and the measure of national prosperity. We may admit that it is so, *if the wealth be distributed* with some approach to equality among the people. But if the vast majority of the nation is beggared, while enormous fortunes are accumulated by a few, — if pauperism increases at one end of the social scale as rapidly as wealth is heaped up at the other, — then, even though the ratio of the aggregate wealth to the aggregate population be constantly growing larger, the tendency of things is downward, and, sooner or later, if a remedy be not applied, society will rush into degradation and ruin.

In order to obtain a broader field of inquiry, the subject to be discussed in this volume will be, *the general well-being of society, so*

far as this is affected by the moral causes regulating the production, distribution, and consumption of wealth. It may be doubted whether the whole of this theme is included within the limits of Political Economy properly so called; and therefore I propose to consider not only the science itself, but its application to a particular case, — the circumstances and institutions of the American people. Hitherto, history has been in the main a political record, — a narrative of wars, conquests, and changes in the form of government. But the social economy of different states has now become the chief object of interest, even to the historian. Statesmen have been obliged to make the study of politics second to that of political economy. The idea of political freedom, of choosing their own governors and managing their own affairs, is no longer attractive enough to lead the people, if it be not united with some project for a new organization and a more equal enjoyment of the goods of this life. Hence the rise of so many schemes of Socialism and Communism, which gave a character to the Revolutions of 1848 wholly unlike that of any other political disturbances recorded in the previous history of the world.

Even if the disastrous consequences of the insane attempts then made to reorganize society should prevent a speedy repetition of the experiment, there is another danger, from which no civilized community is entirely free, — lest the several classes of which it is composed should cherish mutual jealousy and hate, which may finally break out into open hostilities, under the mistaken idea that their interests are opposite, and that one or more of them possess an undue advantage, which they are always ready to exercise in oppressing the others. We need, therefore, to explain and teach the great truths which Political Economy has demonstrated; — that all classes of society are inseparably bound together by a community of interest; that the prosperity of each depends on the welfare of all; that the national industry must be meagre and profitless in its results if it has not capital or concentrated wealth to co-operate with it; that an equal division of property would, in fact, destroy or dissipate that which was divided; and that the only equality of condition which human nature renders possible is an equality of destitution and suffering.

I need not apologize for the science which treats of the creation of wealth, on the ground that it relates only to one of the lower

interests of humanity, and that it is not of so much moment for an individual or a society to be rich, as it is, to be wise, free, instructed, and virtuous. It is true that wealth is one of the lower elements or supports of civilization, and that the comparative quantity of it is but an imperfect index of national worth and national well-being. But it is also true that wealth is that element of civilization which supports all the others, and that without it no progress, no refinement, no liberal art would be possible. Without property, without large accumulations of wealth, no division of labor would be possible; and without division of labor, each man must provide by his own toil for all his bodily wants. He must plant, sow, and reap for himself. He must be his own tailor, shoemaker, housewright, and cook. The scholar could no longer devote himself exclusively to his books, the man of science to the observation of nature, the artist to the canvas or marble, the physician to the cure of diseases, or the clergyman to the care of souls. All would be bound alike by the stern necessity of daily brutish toil on the most repulsive tasks. National wealth is a condition of progress, — a prerequisite of civilization. It is not in itself ennobling; but it is that which vivifies and maintains all the other elements and influences which dignify humanity and render life desirable.

Even if popular ignorance and prejudice upon this subject were not dangerous to the state, a liberal curiosity would not rest satisfied without some knowledge of the laws affecting the creation and production of wealth, — laws which are, in truth, as constant and uniform as those which bind the material universe together, and evince the wisdom and goodness of the Creator quite as clearly as any of his arrangements in the organic kingdom. It is true that men are usually selfish in the pursuit of wealth; but it is a wise and benevolent arrangement of Providence, that even those who are thinking only of their own credit and advantage are led, unconsciously but surely, to benefit others. The contrivance by which this end is effected — this reconciliation of private aims with the public advantage — is often complex, far-reaching, and intricate; and thus more strongly indicates the benevolent purpose of the Designer. In the instance already given, we have seen that the wealth of an individual, perhaps a sordid and covetous one, invested by him with a view only to his own advantage and security,

and to spare himself the trouble of superintending it, still circulates through the community without his knowledge, supporting the laborer at his task, supplying means to the ingenious and the enterprising for the furtherance of their designs, and assuming with facility every shape which the necessities or the convenience of society may require.

"Let any one propose to himself," says Dr. Whately, "the problem of supplying with daily provisions of all kinds a city like London, containing about two millions of inhabitants. Let him imagine himself a head commissary, intrusted with the office of furnishing to this enormous host their daily rations. A failure in the supply even for a single day might produce the most frightful distress. Some, indeed, of the articles consumed might be stored up in reserve for a considerable time; but many, including most articles of animal food and many of vegetable, are of the most perishable nature. As a deficient supply of these, even for a few days, would occasion great inconvenience, so a redundancy of them would produce a corresponding waste. The city is also of vast extent, — a province covered with houses, — and it is essential that the supplies should be so distributed as to be brought almost to the doors of all the inhabitants. The supply of provisions for an army or garrison is comparatively *uniform in kind;* but here, the greatest possible variety is required, suitable to the wants of the various classes of consumers. Again, this immense population is extremely fluctuating in numbers; and the increase or diminution depends on causes of which some may, others cannot, be distinctly foreseen. Again, and above all, the daily supplies of each article must be so nicely adjusted to the stock from which it is drawn, to the scanty or abundant harvest, importation, or other source of supply, to the interval which must elapse before a fresh stock can be furnished, and to the probable abundance of the new supply, that as little distress as possible may be felt; — that, on the one hand, the population may not unnecessarily be put on short allowance of any article, and, on the other, may be preserved from the more dreadful risk of famine, which must happen if they continued to consume freely when the stock was insufficient to hold out.

"Now let any one consider this problem in all its bearings, and then reflect on the anxious toil which such a task would impose on a board of the most experienced and intelligent commissaries, —

who, after all, could discharge their office but very inadequately. Yet this object is accomplished, far better than it could be by any effort of human wisdom, through the agency of men who think each of nothing beyond his own immediate interest, — who, with that object in view, perform their respective parts with cheerful zeal, and combine unconsciously to employ the wisest means for effecting an object, the vastness of which it would bewilder them even to contemplate.

"It is really wonderful to consider with what ease and regularity this important end is accomplished, day after day, and year after year, through the sagacity and vigilance of private interest operating on the numerous class of wholesale, and more especially retail, dealers. Each of these watches attentively the demands of his neighborhood, or of the market he frequents, for such commodities as he deals in. The apprehension, on the one hand, of not realizing all the profit he might, and, on the other, of having his goods left on his hands, — these antagonist muscles regulate the extent of his dealings and the prices at which he buys and sells. An abundant supply causes him to lower his prices, and thus enables the public to enjoy that abundance; while *he* is guided only by the apprehension of being undersold. On the other hand, an actual or apprehended scarcity causes him to demand a higher price, or to keep back his goods in expectation of a rise. Thus he co-operates, unknowingly, in conducting a system which no human wisdom directed to that end could have conducted so well, — the system by which this enormous population is fed from day to day.

"I say, 'no *human* wisdom'; for *wisdom* there surely is, in this adaptation of the means to the result actually produced. In this instance, there are the same marks of benevolent design which we are accustomed to admire in the anatomical structure of the human body. I know not whether it does not even still more excite our admiration of the beneficent wisdom of Providence, to contemplate, not corporeal particles, but rational free agents, co-operating in systems not less manifestly indicating design, but no design of theirs; and though acted on, not by gravitation and impulse, like inert matter, but by motives addressed to the will, yet accomplishing as regularly and as effectually an object they never contemplated, as if they were merely the passive wheels of a machine."

It is on a large induction from such cases as this, that political

economists rest their most comprehensive and most noted maxim, — the *laissez-faire*, or "let-alone," principle, — the doctrine of non-interference by the government with the economical interests of society. True, these interests are in the hands of individuals, who look only to their own immediate profit, and not to the public advantage, or to the distant future. They are not only selfish; they are often ignorant, short-sighted, and unconscious of much of the work that they do. But society is a complex and delicate machine, the real Author and Governor of which is divine. Men are often his agents, who do his work, and know it not. He turneth their selfishness to good; and ends which could not be accomplished by the greatest sagacity, the most enlightened and disinterested public spirit, and the most strenuous exertions of human legislators and governors, are effected directly and incessantly, even through the ignorance, the wilfulness, and the avarice of men. Man cannot interfere with His work without marring it. The attempts of legislators to turn the industry of society in one direction or another, out of its natural and self-chosen channels, — here to encourage it by bounties, and there to load it with penalties, — to increase or diminish the supply of the market, to establish a *maximum* of price, to keep specie in the country, — are almost invariably productive of harm. *Laissez faire;* "these things regulate themselves," in common phrase; which means, of course, that God regulates them by his general laws, which always, in the long run, work to good. In these modern days, the ruler or governor who is most to be dreaded is, not the tyrant, but the busybody. Let the course of trade and the condition of society alone, is the best advice which can be given to the legislator, the projector, and the reformer. Busy yourselves, if you must be busy, with *individual cases* of wrong, hardship, or suffering; but do not meddle with the general laws of the universe.

The limitations of this "let-alone" principle are nearly as obvious as the principle itself. The office of the legislator is not, by his own superior wisdom to chalk out a path for society to move in, but to remove all casual and unnatural impediments from that path which society instinctively chooses for itself. Human laws, if wisely framed, are seldom *mandatory*, or such as require an active obedience; they are mostly *prohibitive*, or designed to prevent such action on the part of the few as would impede or limit

the healthful action of the many. Vice and crime, for instance, are stumbling-blocks in the path of the community; they obstruct the working of the natural laws, the ordinances of Divine Providence, by which society is held together and all well-meaning members of it are made to co-operate, though unconsciously, for each other's good. To remove such stumbling-blocks, then, is not to create, but to prevent, interference with the natural order of things. Legislation directed to this end is only a legitimate carrying out of the *laissez-faire* principle.

The enforcement of justice in the ordinary transactions between man and man, which often requires further legislation than is needed for the mere prevention of open vice and crime, is another instance of the legitimate exercise of authority by the government. An individual may not erect a powder-manufactory in the midst of a populous village, nor carry on any operations there which would poison the air with noxious exhalations. His neighbors would have a right to call out to him, "Let *us* alone; you endanger our lives, and prevent us from pursuing our ordinary occupations in safety."

These are *internal* impediments to the natural action of society, and as such the government is bound to put them out of the way. But it is also the duty of the legislature to guard society against *external* dangers and hindrances. Men are separated into distinct communities, the action of which upon each other is not so much restrained by law, or by the natural requisitions of justice, as is that of individuals dwelling in the same community. The law of nations is a very imperfect code, and, from the want of any superior tribunal to enforce its enactments, it is very imperfectly observed. War is either a present evil to be averted or alleviated, or it is a possible future event, the occurrence of which is to be guarded against. For either of these ends, the action of individuals within the community may need to be restrained; for the safety of all, the freedom of all to pursue their lawful occupations without let or hindrance is not to be imperilled through the avarice or recklessness of a few. Accordingly, not mere restraints upon importation, but an absolute prohibition of intercourse, an embargo on all navigation, are among the legitimate measures, a necessity for which is created by national dissension and hostility.

Independent communities are not always at war with each

other; but they are always rivals and competitors in the great market of the world. This feeling of rivalry is whetted by the different circumstances under which they are placed, by the peculiarities in the condition of each, and by the opposition of interests which often grows out of these peculiarities. The legislation of each state is primarily directed, of course, to the protection and promotion of the interests of its own subjects; and thus it often injuriously affects the interests of other nations. There is, therefore, a good deal of retaliatory legislation on the part of different governments. There is often, on both sides, a keen measure of wits in devising commercial regulations which shall affect, or render nugatory, measures adopted by the rival nation, not exactly with a hostile intent, but with an exclusive view to its own interests, and therefore frequently with an injurious effect upon the interests of others. Now, such retaliatory legislation, so far as it operates upon the members of the very community from which it emanates, so far as it limits or restrains the action of all or a portion of them, is not an infringement, but an application, of the *laissez-faire* principle. It is designed to procure for them a larger liberty than they would otherwise enjoy; if it is effectual, if it answers its purpose, it removes an impediment created by a foreign state, far more serious and extensive than the obstruction which it imposes.

The policy of states leads them to seek independence of each other in their economical, almost as much as in their political, relations; or we might better say that political independence requires that we should not be entirely dependent upon foreigners for the supply of great articles of prime necessity, — that we should have within our own borders, and under our own control, the means of satisfying all our natural and imperative wants. It is not desirable that Massachusetts and Ohio should be rendered so far independent of each other that each could obtain from its own soil, or by the labor of its own inhabitants, all that it can need; for these two States are *one* in most of their political relations. Members of the same great confederacy, living under the same laws, and each exercising its due share of influence in the national legislature, neither has cause to apprehend the hostile or injurious action of the other. The political ties between them are strengthened by their dependence on each other for a supply

of many of the necessaries of civilized existence. But it is desirable that both should be independent; as far as may be, of the great powers of Europe, with whom they cannot be sure of continued friendly intercourse for any time beyond the present, and from whom they are always separated by a great breadth of ocean, and by dissimilarity of customs, institutions, and laws.

True independence, in an economical point of view, does not require us to forego all commercial intercourse with other nations: this would be rather a curse than a blessing. But it does require that each nation should be able to exercise, within its own limits, all the great branches of industry designed to satisfy the wants of man. It must be able to practise all the arts which would be necessary for its own well-being if it were the only nation on the earth. If it be restricted to agriculture alone, or to manufactures alone, a portion of the energies of its people are lost, and some of its natural advantages run to waste. To be so limited in its sphere of occupation, to be barred out from some of the natural and necessary employments of the human race, through the overwhelming competition of foreigners, is a serious evil, which it is the object of a protective policy to obviate or redress. On whatever other grounds this policy may be objected to, it is surely not open to the charge of being an infringement of the *laissez-faire* principle, or a restriction of every man's right to make such use as he pleases of his own industry and capital. Its object is, not to narrow, but to widen, the field for the profitable employment of industry, and to second the working of the beneficent designs of Providence in the constitution of society, by removing all artificial and unnecessary checks to their operation.

I repeat it, then, that these designs, as shown in the economical laws of human nature (i. e. in the principles of Political Economy) through their general effects upon the well-being of society, manifest the contrivance, the wisdom and beneficence, of the Deity, just as clearly as do the marvellous arrangements of the material universe, or the natural means provided for the enforcement of the moral law and the punishment of crime. The lowest passions of mankind, — ostentation and ambition, petty rivalry, the love of saving and the love of gain, — while they bring their own penalty upon the individual who unduly indulges them, are still overruled for good in their operation upon the interests of society; nay, they

are made the most efficient means of guarding it from harm, and advancing its welfare. In the vast round of employments in civilized society, there is hardly one in which a person can profitably exert himself, without at the same time profiting the community in which he lives, and lending aid to thousands of human beings whom he never saw. We are all servants of one another without wishing it, and even without knowing it; we are all co-operating with each other as busily and effectively as the bees in a hive, and most of us with as little perception as the bees have, that each individual effort is essential to the common defence and general prosperity.

CHAPTER II.

HOW WEALTH IS CREATED, AND WHAT CONSTITUTES EXCHANGEABLE VALUE: THE MEASURE OF VALUE: HOW WEALTH IS DISTRIBUTED AMONG ITS PRODUCERS.

A DISTINCTION has been briefly pointed out between wealth and property. *Wealth* consists of the aggregate of articles, chiefly material or tangible, though some immaterial products are ranked among them, which supply the wants and satisfy the desires of man; and the stock of national wealth "is kept in existence from age to age, not by preservation, but by perpetual reproduction. Every part of it is used or destroyed, — generally very soon after it is produced; but those who consume it are employed meanwhile in producing more," — not only enough to replace what is consumed, but to furnish a surplus, or profit. *Property* is the ownership of these articles, and often remains unchanged, or fixed, for many generations, — just as the river continues, though the water is perpetually running out of it into the sea.

As the articles change while the ownership continues, there must be evidences of that ownership, or "tickets of transfer," as I have once called them, — mere representatives of wealth, which command a price in the market, and are often sold, but which, in themselves, form no addition to the national wealth. Notes and mortgages, bank-bills, bank-stock, stock in any corporation or in the national

debt, are such representatives. They are mere evidences that the person holding them is the owner of a larger or smaller portion of those articles which really constitute wealth; and their value to him consists only in the fact that they enable him, whenever he sees fit, to reclaim his property, or to take possession of those articles which actually belong to him, though for a time he has trusted them to others.

The national wealth, therefore, does not consist of the land, the houses, the manufactured goods, etc., *plus* the public funds, bank-stock, and the like. These funds and stocks are not wealth in themselves, but are *certificates of ownership* of those articles which really constitute riches. Nay, if any portion of these stocks is held by foreigners, the aggregate wealth of the community does not consist even of the whole amount of those articles within its territory which are properly considered as wealth, but only of that amount *minus* the evidences of indebtedness to foreigners. If I buy $ 1,000 worth of government securities, I really lend $ 1,000 to the government, which, in return, mortgages to me a portion of its revenues, or of the sum which it annually raises by taxation. This sum is that portion of the valuable articles annually created by the labor of the community which the government appropriates to itself, as a compensation for the care and protection which it affords. What I really own, then, is this share of the useful articles annually produced by the labor of the whole people, which is transferred, first by the people to the government, and then by the government to me. The scrap of paper, called "public stock," which I hold, is of no value whatever, except as it enables me to claim without dispute my share of this annual product.

These truths are elementary, and sufficiently obvious; but it was necessary to state them in order to clear the ground for the solution of the problem with which we are now concerned: — *What are the essential qualities of wealth, and how is it created?* How is it, that the national stock of wealth, which we are perpetually consuming, is yet perpetually reproduced, and that, too, with a profit, or constant enlargement, so that the stock at the end of the year is considerably larger than it was at the year's commencement?

As soon as we clearly perceive that wealth consists *exclusively* of those useful articles, chiefly material or tangible, which have been

indicated, and that we have nothing to do with the intricate complications of property which arise from the dealings of men in the banks and the stock-market, the answer to this question becomes very easy. *Wealth is created by devoting human labor to the production and fashioning of these useful articles;* — by tilling the ground, and raising harvests of food and of the raw materials for manufacture; by spinning, weaving, and sewing; by erecting houses, working mines, and building ships; by any and every application of industry which is essential to the full enjoyment of these articles, or which has directly or indirectly concurred in their formation. Human labor, whether skilful or unskilful, whether applied alone or artfully assisted by natural agents, is the means; wealth is the product. Whatever is necessary in order that the workman may apply himself more directly and successfully, and with less interruption, to his task, must be considered as a portion of the industry which concurs in the formation of the article produced by that workman.

Thus, he must feel secure in his employment, — secure against violence, robbery, or any improper or wrongful interruption of his labor. Government affords him this security, and is, to this extent, a coworker and fellow-producer with him, so that it rightfully claims a share — a very small share — of the finished product. "On the governor, and those with whom he is associated, or whom he appoints," says Mr. Senior, "is devolved the care of defending the community from violence and fraud; and so far as internal violence is concerned, and that is the evil most dreaded in civilized society, it is wonderful how small a number of persons can provide for the security of multitudes. About 15,000 soldiers, and not 15,000 policemen, watchmen, and officers of justice, protect the persons and property of the eighteen millions of inhabitants of Great Britain."

The co-operation which the laborer requires, in a highly civilized community, for the completion of his task, in order to present the article in a state fit for use, is far more extensive than we are apt, at first sight, to imagine. Thus, bread is a finished product, the total value of which must compensate a long line of laborers who have concurred in its formation. The tradesman who brings it to your door; the baker; the miller; the farm-laborers who plough, sow, and reap; the farmer or land-owner; and all the artisans

who have fabricated all the tools and instruments used by these persons, — must all have their share of the price finally paid for the bread which is fully prepared to be eaten. The extensive co-operation of employments, produced by the minute subdivision of labor, is the most striking feature of modern civilization. The object of this immense subdivision is to secure the greatest possible efficiency of labor; — that everything may be produced on the spot best suited for its production; that every step in the process of its manufacture may be taken by the person most capable of taking it to advantage, and under the most favorable circumstances; and that the article itself, when finished, may be adapted, even in the slightest particulars, to the wants, tastes, and convenience of those who are to use it. The value which may be added to the article by the numerous steps of this long process may be very great. "We should probably be understating the difference," says Mr. Senior, "if we were to say that the last price was a thousand times the first. The price of a pound of the finest cotton-wool, as it is gathered, is less than two shillings. A pound of the finest cotton lace might easily be worth more than a hundred guineas."

We gain another view of this marvellous co-operation of individuals, designed to make labor most efficient, by searching out the history, analyzing the cost, and tracing the processes of manufacture, of all the articles of our own daily consumption. We think it little to sit down to a table covered with articles from all quarters of the globe and from the remotest isles of the sea; — with tea from China, coffee from Brazil, spices from the East, and sugar from the West Indies; knives from Sheffield, made with iron from Sweden and ivory from Africa; with silver from Mexico, and cotton from South Carolina; all being lighted with oil brought from New Zealand or the Arctic Circle. Still less do we think of the great number of persons whose united agency is required to bring any one of these finished products to our homes, — of the merchants, insurers, sailors, ship-builders, cordage and sail makers, astronomical-instrument makers, men of science, and others, who must concur before a pound of tea can appear in our market. In view of these circumstances, it is no exaggeration to say, that the humble artisan, who spends his life — to adopt Adam Smith's illustration — in making the eighteenth part of a pin, and is hardly fitted for any higher employment, still taxes the industry of half the human

race, and lays under contribution the four quarters of the globe, to supply his daily wants.

How is it that, while, in these days, men will not often labor for nothing, and while the artisan himself produces nothing but the fraction of a pin, he is still able to consume so great a variety of products, and to make the industry of so vast a multitude tributary to his comforts? The answer may be given in one word, — *by exchange.* As human labor is the only motive power, so *capability of exchange* is the sole directing agent, in the great social machine for the production of wealth. The immediate measure of the wealth, when produced, is, not its utility, but its *exchangeable value;* and Political Economy itself, as I have already remarked, has been denominated *Catallactics,* or the Science of Exchanges.

We come, then, to an analysis of *exchangeable value,* in order to find a basis for the theory of wealth. What is it that constitutes value in exchange, and why do various articles possess it in such unequal proportions? The answer is, that exchangeable value consists of two elements, — *utility,* and *difficulty of attainment.* The article valued must in some measure be useful; that is, it must be adapted to satisfy, either directly or indirectly, some natural want or artificial desire of men: and it must also be more or less difficult to be had. These elements may coexist in very different proportions; but, in one degree or another, they must both be present, or the article has no value in exchange. It may, for instance, be very useful; it may be an article of prime necessity, absolutely essential to the existence of man. Yet if there be no difficulty in the way of its attainment, if, like the air, the water, and the sunlight, the supply of it be inexhaustible, and open to all the world, then it has no exchangeable value. It forms no part of what is usually called wealth. Supply the element which was lacking, — only make the article hard to be procured, as water is in the midst of the sandy desert of Sahara, or as air was to Mr. Holwell and his companions in the Black Hole at Calcutta, — and men will give all that they have in the world for a single draught of either. On the other hand, it may be very difficult of attainment; it may, like some of the most refined products of chemical analysis, require the labor of years, the greatest scientific skill, and an expenditure of the most costly materials, before it can be procured. Yet if it be not useful, if it do not satisfy some want or desire,

— however artificial or irrational that desire may be, — it commands no price in the market; it has no exchangeable value.

But we do not here speak of abstract utility, or of that utility which is determined by reason and measured by a philosophical standard. *Utility here means nothing but fitness or capability to satisfy any desire of men*, however unreasonable, extravagant, or capricious that desire may be. If men are so foolish as to prize highly many articles which answer no purposes but of vain ostentation or gross and sensual enjoyment, it is not for the political economist, who views things only as they are, — not as they ought to be, — to censure their folly. He leaves this office to the moralist or the preacher. The fact that such articles are coveted, from whatever motive, is enough to bring them within his definition of wealth; which definition, it is evident, only expresses the common sentiment of mankind.

As the words *value* and *utility* are often used in the moralist's sense, or according to their philosophical import, it is necessary to give this caution once for all, — that whenever in future they are here used, they must be understood only in their politico-economical signification. By *value*, we mean only *exchangeable value;* by *utility*, we mean only that utility which is an element of wealth, and which consists in fitness to satisfy any want or desire, however irrational, that is felt by any number of men.

This analysis of value, this explanation of what wealth *is*, leads us immediately to an understanding of the manner in which wealth is *created*. As the essence of value consists in difficulty of attainment, so the *labor* which overcomes that difficulty is the great means of producing value, or creating wealth; and everything which diminishes that difficulty is to be considered as *labor*, — is entitled to be called by that name, for it is recognized and compensated as such by the community. And here is the great paradox of Political Economy: — Value depends on difficulty of attainment; the only way of creating values is to lessen or overcome that difficulty; but as soon as *all* difficulty is overcome, when there is no longer any obstacle in the way between man and the gratification of his desire, then exchangeable value also disappears, and the boundless wealth, which seemed just within our grasp, is suddenly changed, as by a magical incantation, into dross or nothingness.

This paradox is not created merely by an abuse of abstract defini-

tions and theoretical reasoning. The seeming contradiction is a literal fact, as may be clearly shown by a practical illustration. Gold surely possesses the highest value in exchange, and is eminently difficult of attainment. The story, first promulgated in the winter of 1848–49, that it abounded in the soil of California, caused as much excitement and agitation in this country, and indeed throughout the civilized world, as would have been created by another battle of Waterloo. Did it ever occur to any of the gold-hunters at that time, that their hopes would be just as much frustrated by finding that the precious metal there was too plentiful, as by ascertaining that it was not to be found at all? Let us suppose that the most exaggerated reports had been correct, — that all the rocks of the Sierra Nevada itself were composed in great part of gold, — that there were gold mountains in California, just as there are iron mountains in Missouri. Is it not certain that the value of gold all over the world, almost at once, would sink to about the same point with iron? Then carry the supposition one step farther. Imagine that it is not necessary to go to California for this metal, but that our own streets are paved and our gutters lined with gold, which also, in lumps, strews the whole face of the country. Is it not evident, that it would instantly become as valueless as the stones and dirt which now cover our streets and roads?

How vain, then, is it to expect that wealth can ever be created without labor, which is its natural and necessary price! Gold is now so precious precisely *because* so much labor is required to obtain it. What a pity it is that the old alchemists, many of whom were the most learned men of their times, and who wasted fortune and life in their vain pursuit, could not have foreseen that the philosopher's stone, when discovered, would be as worthless as another stone, which should have the property of turning everything it touched into granite!

The useful metals, generally, possess value just in proportion to the fewness and unproductiveness of the mines whence they are obtained, and to the labor required for bringing them to market and giving them the forms and qualities that fit them for use. Iron in this country owes nearly all its value to the labor expended in extracting it from the ore and manufacturing it; for iron ore is so plentiful that, except in a few favorable localities, where fuel is

abundant and transportation easy, an acre of ground with iron ore for its surface is worth hardly as much as the same extent of fertile land. Yet fine steel cutlery and watch-springs, which are only iron in a highly finished state, sell at a high price by the ounce. Copper, again, being more rare, and the mines of it less productive, owes its value chiefly to its scarcity, or the labor required for finding it and bringing it from a distance. Yet it is so natural an illusion to believe that the high value of these metals in their manufactured state attaches to them also when they are in the ore, that a mining mania is more easily excited in the community than any other speculative bubble.

What I have called the paradox of political economy, like the hydrostatic paradox, is really very simple, and admits of an easy explanation. In proportion as the labor required for obtaining any useful article is diminished, and the article itself consequently becomes very common, in that proportion it approximates the character of those invaluable gifts of Providence, the air, the water, and the sunlight, which, because they are common and inexhaustible, have natural, but no exchangeable, value. They become *natural wealth*, they cease to be *artificial wealth*. Man does not, in the economical sense, *value* them, or consider them as wealth, because he is not able to exchange them for those things which can be procured only by labor; or, in other words, he cannot purchase labor with them. The possession of them conveys no distinction, does not exalt one above his fellows, gives no power over other men. Each of them satisfies one imperative want, and in this respect is truly *in*valuable; but it does not possess that quality which is characteristic of all articles that are usually considered as wealth; — any one of these may be bartered for more or less of any article or product whatsoever that the possessor may desire. We are wont to consider *money* as the universal medium of exchange, though it is only a contrivance for facilitating it: this is a consequence of the popular delusion which confounds *money* with *wealth*. Any portion of wealth, any article of value, is, like Fortunatus's wishing-cap, a means of obtaining, *to the extent of its exchangeable value*, whatever other article we may desire; the contrivance of *money* rendering the process of obtaining it by exchange a very simple one. This Protean character of wealth, this capability of satisfying whatever want or whim the heart of man can conceive,

is, like the ductility of gold, its most peculiar and attractive quality.

And here we perceive the explanation of the fact which has so often been a topic of complaint, that the pecuniary wages or earnings of scientific and literary men are, with a few rare exceptions, very inconsiderable. The inadequacy of the pecuniary compensation of these persons "arises from a variety of causes; but principally, perhaps, from the indestructibility, if we may so term it, and rapid circulation of their works and inventions. The cloth of the manufacturer and the corn of the agriculturist are speedily consumed, and there is therefore a continual demand for fresh supplies of the same articles. Such, however, is not the case with new inventions, new theories, or new literary works. They may be universally made use of, but they cannot be consumed. The moment that the invention of logarithms, the mode of spinning by rollers, and the discovery of the cow-pox had been published, they were rendered imperishable, and every one was in a condition to profit by them. It was no longer necessary to resort to their authors. The results of their researches had become public property, had conferred new powers on every individual, and might be applied by any one." As they can no longer be appropriated, the *difficulty of attainment*, which is a necessary element of artificial wealth, is entirely removed; they therefore cease to possess *exchangeable value*, and become a part of what we have called the *natural wealth* of mankind.

Observe, moreover, that it is in the highest departments of literature and science that labor is most imperfectly remunerated; in those of a lower rank, in adapting to popular comprehension and purposes of practical utility the ideas and discoveries of others, tact and industry may often reap a considerable pecuniary reward. Hence, invention is usually more profitable than discovery; a new machine may create a fortune for its inventor, whilst the discoverer of those abstract principles of science, or general laws of nature, which are applied in the mechanical improvement, or are presupposed in the construction of it, can obtain no compensation but the fame of his labors and the gratitude of posterity. No one thinks of rewarding the heirs of Franklin and Œrsted for those discoveries in electricity and electro-magnetism to which we are primarily indebted for the lightning-rod, the electrotype, and the

magnetic telegraph. Ideas cannot be patented, or exclusively appropriated; but machines may be. So also in authorship, as McCulloch observes, "though a work should have the greatest influence over the legislation of the country or the state of the arts, it may redound but little to the advantage of the author. Many a middling novel has produced more money than the 'Principia' or the 'Wealth of Nations'; and in this respect the 'Decline and Fall of the Roman Empire' has been far inferior to the 'Arabian Nights.'" "Learning hath gained most," says old Thomas Fuller, "by those books by which the printer has lost."

The conversion of artificial into natural wealth — a considerable loss in exchangeable value being a real gain to the whole community — may be further illustrated by an example borrowed from Mr. Senior. "If the climate of England could be suddenly changed to that of Bogotá, and the warmth, which we extract imperfectly and expensively from fuel, were supplied by the sun, fuel would cease to be useful, except as one of the productive instruments employed by art; [that is, in metallurgy, driving steam-engines, etc.] We should want no more grates or chimney-pieces in our sitting-rooms. What had previously been a considerable amount of property in the fixtures of houses, in stock in trade, and materials, would become valueless. Coals would sink in price; the most expensive mines would be abandoned; those which were retained would afford smaller rents. All would gain in enjoyment by being able to devote to other purposes the money which they previously paid for artificial warmth. Still, for a time, there would be *less* [*artificial*] wealth; [and there would be permanently a great gain in *natural wealth.*] The capital and the labor previously devoted to warming our apartments would be diverted to the production of new commodities. The cheapness of coal would increase the supply of manufactured articles, and there would then be as much wealth as there was before the change, — probably more, and certainly much more enjoyment."

As to the nature of the labor which ends in the production of wealth, it is justly remarked by McCulloch, that "all the operations of nature and art are reducible to, and really consist of, *transmutations*, — that is, of changes of form and of place. By *production*, in this science, is not meant the production of *matter*, that being the exclusive attribute of Omnipotence, but the pro-

duction of *utility*, and consequently of *value*, by appropriating and modifying matter already in existence, so as to fit it to satisfy our wants and contribute to our enjoyments. The labor which is thus employed is the only source of wealth. Nature spontaneously furnishes the matter of which all commodities are made; but until labor has been applied to appropriate that matter, or to adapt it to our use, it is wholly destitute of value, and is not, nor ever has been, considered as forming wealth. Place us on the banks of a river, or in an orchard, and we shall infallibly perish of thirst or hunger, if we do not, by an effort of industry, raise the water to our lips, or pluck the fruit from its parent tree. It is seldom, however, that the mere appropriation of matter is sufficient. In the vast majority of cases, labor is required not only to appropriate it, but also to convey it from place to place, and to give it that peculiar shape without which it may be totally useless, and incapable of ministering either to our necessities or our comforts. Of the innumerable variety of animal, vegetable, and mineral products, which form the materials of food and clothes, none was originally serviceable, while many were extremely noxious to man. It is his labor which has given them utility, that has subdued their bad qualities, and made them satisfy his wants and minister to his comforts and enjoyments."

We distinguish three kinds of industry: —

1. The labor of *collecting and appropriating* natural products. This includes the work not only of the agriculturist, but of the miner, the huntsman, the fisherman, and all others who bring together for the use of man the various products of sea and land which satisfy his wants.

2. The tasks of the manufacturer, the mechanic, and the artisan, who shape, combine, and fabricate raw materials into forms fit for use.

3. The business of the merchant, who brings together the products of various climes, distributes them among the people in proportion to their means and wants, and equalizes the supplies and prices of commodities by storing them up for future use, or carrying them where they are most needed.

Again, the commodities which constitute wealth may be divided into two classes: — 1. The articles which are designed for immediate consumption, and *which directly satisfy the wants of man;*

such as food and clothing that are fit to be eaten and worn, the houses that shelter us, and the ornaments and luxuries that gratify our tastes. These may be said to have Primary value. 2. The tools, implements, and raw materials, by means of which, or out of which, the former articles are made, but which, in their present shape, are not fitted for our immediate gratification or support. These last possess only a kind of Secondary or derivative value, as they are prized, not for their own sake, but for what can be made out of them, or obtained by their aid.

Thus far it has been shown, that labor is not only necessary in fact for the creation of value, but enters into the very idea of it, so that, when the necessity for labor departs, the reality and even the conception of value vanish along with it. I now say that the labor required is a *measure* of the value produced. But here the word *labor* must be taken in its most comprehensive signification. I mean by it *any human exertion whatever, corporeal or intellectual, which, directly or indirectly, overcomes or diminishes that difficulty of attainment which we have seen to be an essential element of wealth.* The only measure of such labor is its comparative efficiency. Thus, the labor of one practised and skilful artisan is equal to that of at least three raw hands, or ordinary laborers, as they are termed; in some cases it may equal that of many more. The labor, chiefly *intellectual*, of general superintendence and skilful direction of the operatives employed in a manufactory may be measured by the *ordinary* labor which it saves, — that is, by the number of additional workmen, or the additional time, that would be needed if such superintendence were wanting; or it may be measured by the scarcity of the peculiar skill and tact which are required for such superintendence, — that is, by the difficulty of finding a competent superintendent.

So the value of a machine may be either the labor which it saves, or the labor which it costs. If, for instance, a manufacturer introduces a new machine, by the aid of which two men can do the work that formerly required ten men, (two more persons being required to build the machine and keep it in repair,) he will save the labor of *six* persons; and the value of this machine to him will be represented by six laborers working gratuitously. This will be the case, however, only so long as he can keep the machine

a secret from other manufacturers, or enjoy the exclusive use of it. When its use becomes general, the general saving of labor, by reducing the cost of the manufactured article, will also reduce its price; for that which costs the labor of but four persons will exchange for the labor of not more than four. No one will give anything more for any commodity than it would cost him to produce it for himself; and in the case supposed, any four workmen, by employing such a machine, might manufacture the article for themselves. Now then, the value of the machine will be only the labor which it costs; the articles produced by it will represent the labor of but four persons, — two to work it, and two more to build and keep it in repair.

The general law, therefore, that the labor required is a measure of the value produced, is subject to two limitations: the *first* is, that allowance must be made for the various degrees of efficiency of the several laborers employed; the *second*, that the maker has not the advantage of a patented machine or a secret process, which might enable him to produce the commodity by a smaller expenditure of labor than is usual. According to Adam Smith, a workman accustomed to the use of the hammer, but not accustomed to making nails, cannot manufacture usually more than 300 nails in a day; while such is the dexterity acquired by practice, that about 2,300 can be made in a day by a workman who has never exercised any other trade than that of making nails. The value of one day's labor of such a workman, in this manufacture, will be evidently equal to that of seven or eight days' labor by an ordinary smith. It is equally obvious, that the *exclusive* use of a machine, or a secret process, might render the articles produced by three ordinary workmen the full equivalent in value of those manufactured by thirty or forty hands working without any such advantage.

When the use of machinery has diminished the exchangeable value of certain commodities, the question may be asked, What has become of the difference between their former and their present cost? The difficulty of obtaining these commodities is diminished, the labor required to overcome that difficulty is consequently lessened, and therefore, according to the principles already laid down, less exchangeable value is created. Suppose cloth to be the commodity manufactured, and that the price was formerly ten cents a yard, while it can now be had for four cents.

All of that cloth which is already in the market will now be held at only two fifths of its former value. What has become of the other three fifths? Is this amount of exchangeable value destroyed, and is the introduction of labor-saving machinery, therefore, an evil to the community?

The answer is, in this case as in the former one, that the *exchangeable* value of the commodity is diminished; but what is taken away from *that* value is added to what I have called the *natural wealth* of the people, in distinction from their artificial wealth, — to the stock of those things, like the air and the sunlight, which are of pre-eminent utility, but, being universal and inexhaustible, cannot be exchanged for anything. That this is true may be seen at once by putting the extreme case. Imagine that the machine, instead of saving only three fifths of the labor, should save the whole of it; imagine that some contrivance should be hit upon for producing cloth in unbounded profusion, no labor of man being required in any part of the process. It is obvious that we should then obtain cloth on the same easy terms on which we now obtain air and light. It would be an addition to the natural wealth of mankind; but as any person could have as much of it as he wished, without difficulty, he would not give in exchange for it anything which had cost him labor: it would have no exchangeable value. And as a machine which would save the whole of the labor would transform the whole exchangeable value into natural wealth, so, if it saved but three fifths of the labor, it would add that three fifths to our natural wealth.

Observe, however, as before, that this result would follow only if the use of the machine became *common*. If its inventor or first introducer could keep it to himself for a time, he could exchange the cloth which cost him the labor of only four men for articles which cost others, and would cost him, the labor of ten men; because it would take ten persons, without the aid of the machine, to produce the cloth. The value produced is measured by *the average* of the labor required for making or obtaining the commodity, and not by the greater or smaller amount of labor which circumstances might render necessary in a particular case. If any person has a monopoly granted by the government, or a secret process, or a machine which others cannot imitate, he can turn to his own exclusive advantage the value which would otherwise be added to the natural wealth of the community.

Accident, or good fortune as it is called, may have the same effect as a monopoly or a secret process. Take the pearl-fishery, for instance. The value of the pearls obtained will be determined by dividing the whole amount procured in one day by the whole number of divers employed during that day; and by dividing the quantity obtained in the whole season by the number of days in that season; — thus ascertaining the *average cost* of the pearls in labor. But the business is a mere lottery: one diver may bring up, from his first plunge, a pearl worth a hundred dollars; another may dive for a week, and obtain little or nothing. If a capitalist should undertake the business, and pay fixed wages to all the divers on condition of receiving all the pearls which they found, his profits, or the value of the pearls, would evidently be determined by their *average* cost in labor, and not by individual and extraordinary cases. When Mr. Senior, who denies that labor is essential to the creation of wealth, asks triumphantly, "If, while carelessly lounging along the sea-shore, I were to pick up a pearl, would it have no value?" and, "Supposing that aerolites consisted of gold, would they have no value?" he might be answered, that accidents and miraculous events are supposed to be eliminated when we are reasoning upon the general principles which govern ordinary events; and that, if pearls were common enough to be *often* found by loungers on the sea-shore, or if showers of golden aerolites were so frequent as no longer to appear miraculous, certainly both the pearls and the gold would have little or no value.

I have dwelt at length upon the two fundamental maxims of Political Economy, that labor is the source of wealth, and that the wealth produced is in exact proportion to the labor expended, and is therefore measured by it; because, obvious and unquestionable as these truths may appear, they are yet such as the world is slow to recognize and reluctant to act upon. Here in America, especially, too many people spend their time and waste their substance upon vain projects for getting rich without labor. They hope that some one of those accidents, or peculiar circumstances, which we have noticed as occasionally disturbing the regular proportion of value to labor, may fall to their lot: that is, — for it amounts to nothing else, — that they may become rich at the expense of their fellows; that they may, by some invention, or per-

haps some roguery, be able to exchange four days' labor for ten days' labor. They will take shares in a copper-mine, or go to California to dig gold, or commit any other extravagance, though it should be demonstrated to them that the *average* return, the whole profit divided by the whole number of adventurers, would not keep one from starvation.

Take another instance. Three persons out of four, when the temptation is brought home to them, will buy a ticket in a lottery; though this is the only adventure ever offered to the public, in which, *avowedly*, the net result is not a gain, but a loss. For $120,000 received as the price of tickets, perhaps $100,000 are returned in prizes; that is, the adventurers expect that only five sixths of what they have invested will be returned to them, instead of getting back the whole and a profit besides. And the $100,000 returned are divided into so few prizes that nineteen out of twenty of the ticket-holders must suffer a total loss of their investment. But one fortunate person — one out of 60,000 — must receive $20,000 for two invested. And yet lotteries are so popular that they must be forbidden by law, in order to prevent clerks from robbing their employers for the sake of investing money in them.

Coming back to the subject of the co-operation and the compensation of labor, it may be remarked, that the seemingly complex and difficult process of dividing the ultimate value of the finished article equitably among all those who have had a share in its production, is really accomplished with ease, through the number of exchanges it undergoes at the different stages of its manufacture. At each stage, labor effects a change in its form, bringing it nearer to the state in which it is fitted for consumption; at each exchange, therefore, it has more labor vested in it, and consequently buys more labor vested in other products, the difference being the compensation of the last person who has made an alteration of its form.

What regulates this difference, and causes each producer to be paid in exact proportion to the labor which he has bestowed, is *the competition* of other producers. Wheat, for instance, is first sold or exchanged as wheat, the price paid for it being the compensation of the farmer by whose care and labor it was raised. As labor is the measure of value, a quantity of wheat which repre-

sents five days' labor must be exchangeable for a quantity of cloth which also represents five days' labor, — no more and no less; — no more, because this would induce the cloth-maker to turn farmer; no less, because the farmer would then turn cloth-maker. No man will give six days' labor in any one product for another product which he might himself raise in five days.

It may be said, that he who has long practised a particular trade or art will be reluctant to exchange it for another, as he would thereby sacrifice the skill which he has obtained by experience, and be obliged to serve another apprenticeship to a new handicraft or profession. But it must be remembered, that employments can be kept full only by a succession of young and fresh hands constantly entering them; and these persons will choose, of course, the occupation that is most profitable. Thus the number of those who pursue the art which is underpaid will rapidly diminish, while the number in the more profitable branches of industry will increase, until an equality of gains among all these branches is re-established.

Exchanges then regulate themselves, and must be made on equal terms. The farmer having received a fair compensation for his work, the miller next obtains the wheat, and, having converted it into flour, sells it to the flour-merchant at an advanced price, because more labor is now vested in it. In like manner, it passes successively into the hands of the retail dealer, the baker, and the consumer, at each stage acquiring an additional value in exchange just sufficient to compensate, on an average, the labor expended upon it at that stage.

Competition, then, when it is free, or competition modified by custom, determines the distribution of the value of a product among those who have concurred in its production. How far it may be modified by custom depends on circumstances. Mr. Mill justly observes, that competition has become "the governing principle of contracts only at a comparatively modern period"; and that "the relations, more especially, between the land-owner and the cultivator, and the payments made by the latter to the former, are, in all stages of society but the most modern, determined by the usage of the country." It was thus that, in many European countries, the serfs were gradually elevated, first into the condition of free tenants, and finally of absolute owners of the

soil. Their original obligation, to furnish to their lords an indefinite amount of provisions and labor, was first transformed into a definite payment of a fixed amount of either; these payments in kind were next commuted for payments in money, which were established by custom at so early a period, and therefore at so small an amount, that they became mere *quit-rents;* and the land was finally ransomed even from these quit-rents by commutation on reasonable terms, so that the former serfs became absolute proprietors of the ground.

While the peasantry in most countries of Continental Europe were thus not only emancipated, but secured from want by the ownership of the ground which they formerly tilled as slaves, the agricultural laborers of England were far less fortunate. All landed property in England was equally of feudal origin; that is, the land was admitted to belong originally to the state; and the immediate vassals of the crown, or the tenants *in capite*, held it only on condition of rendering certain services and payments, that might be considered as rent. Just so, the practice of sub-infeudation being introduced, these vassals of the crown parcelled out their respective lands to a set of inferior tenants, many of whom were originally serfs, — on condition, first, of certain services and supplies being rendered; next, of a definite payment in kind; and then, of an ordinary money rent. Thus the inferior tenantry were the vassals of the great landholder, in the same manner, and upon the same terms, upon which the latter was a vassal of the crown, both being still called *tenants* in the language of the law. As the prerogatives of the crown were gradually diminished, and the liberties of the people increased, the nobility and landed gentry, the original tenants in chief, gradually lessened the feudal burdens upon their land, which consisted in services and payments, and finally, in Charles the Second's time, shook off the remnant of them altogether, artfully exchanging what had become a mere land-tax for an excise on beer and ale. Thus they became absolute owners of their holdings or tenements. But they had no disposition to make the same concessions to their own tenantry, which they had themselves exacted from the crown. The English peasantry have not been able to retain their lands, even on condition of paying the full original rent for them. They have subsided into the class of *tenants at will*, ground down by *rack-rents* for a

century or two, and at last expelled from the land altogether, to find their subsistence where they may. The feudal dues from the lands of the tenants in chief were slowly transformed into a species of land-tax, and at last abrogated entirely; while the same dues from the lands of the inferior tenantry were transformed into annual rents, augmented in amount by every increase in the value of the land; and when the peasants, from misfortune or bad management, could no longer pay them, they were ejected from the estate altogether, and became mere laborers for wages, or paupers.

The effect of custom in modifying competition has also been seen in Ireland, where the custom of what is called tenant-right has sprung up, prevailing almost universally in the north, and gradually extending itself into the centre and west of that unhappy country. "My view of tenant-right," says Mr. Senior, "is, that it is the difference between the rent actually charged by the landlord according to the custom of the country [which is a sort of *quit-rent*], and the utmost competition value [which is *rack-rent*]. In some cases, it is said to be founded on improvements made by the tenant on his farm, the beneficial effects of which are not exhausted, so that the outgoing tenant claims a right to sell them. The landlords, most of whom are absentees, and therefore unable to watch and know the changes which time produces on the annual value of their estates, have so long received an unvarying sum as the rent of each farm, and each farm has remained so long in the possession of one tenant, that the customary rent, or quit-rent, is now considered as all which the landlord is entitled to receive; and whatever the land is really worth beyond this sum accrues to the benefit of the tenant. If this tenant wishes to quit the holding, custom gives him the right to sell what we should call "the good-will of the farm" for his own benefit; that is, the incoming tenant pays his predecessor a handsome bonus for the privilege of taking the farm on the old fixed rent, which is now much below the annual value of the ground. An enterprising landlord sometimes buys up this "right" for himself, in order that he may once again enter into full possession of his property.

Custom is here seen modifying the full effect of competition on the price of land, because the farm is not actually let to the highest bidder; and it often has equal influence on the prices of other commodities. Among the publishers of books, for example, the

courtesy of the trade, as it is termed, often restrains one house from issuing a rival edition of a work unprotected by copyright before the edition published by another, who first risked the enterprise, is exhausted. So, also, as Mr. Mill remarks, "all professional remuneration is regulated by custom. The fees of physicians, surgeons, and barristers, the charges of attorneys, are nearly invariable. Not certainly for want of abundant competition in those professions; but because the competition operates by diminishing each competitor's chance of fees, not by lowering the fees themselves."

But competition is the general rule; and the effect of unrestrained competition is to distribute the value of a product equally among its various producers, leaving neither to any of them, nor to the consumer, any just ground of complaint. Each receives in exact proportion to the labor which he has bestowed; the labor of all was equally necessary to present the article in its finished state; and he who finally consumes it, therefore, justly pays all by rendering an equivalent amount of labor. Monopolies and scarcity-values exist only when competition is barred out by a patented invention or a secret process, and occasion a temporary enhancement of price and inequality of distribution. But these exceptions, in modern times, are of limited duration and moderate amount. The patent soon expires, the secret process soon becomes known, and equality of distribution is then restored.

I place stress upon this point, because the effect of sharp competition is, in some measure, to blind our eyes to the fact, that we are indebted to the friendly co-operation of labor for all the necessaries, all the comforts, all the luxuries, which we enjoy. This co-operation and mutual dependence of all the arts and trades, all the branches of industry, all ranks and professions, is one of the most valuable lessons of Political Economy; and the fair rivalry which causes the distribution of values among them, in proportion to their respective industry and skill, ought not to create feelings of mutual jealousy and dislike, — ought not to give rise to the cry that one class is taking more than its due share of the common product. It is impossible that any class, *as a class*, should be unduly favored. Individual cases there may be, where fortune, or singularly propitious circumstances, may swell one's gains beyond the common standard. But as a general rule, competition, if unfettered, must tend to reduce them to an equality. The

manufacturer is no more dependent upon the agriculturist than the agriculturist is upon the manufacturer. The merchant is equally dependent upon both, and both depend equally upon him. Even the common laborer is as much indebted to his employer as his employer is to him; each rendering a peculiar service, without which the finished product could not be placed in the market or exchanged for other products.

The prejudice which prevents this truth from being generally recognized is the very natural one, which considers the value of the finished product to reside chiefly in the raw material, and, when that is bulky and cheap, to believe that the great enhancement of its price, which takes place as it passes through the hands of the manufacturer and merchant, is a needless and arbitrary thing, an injury both to the farmer and the consumer. But it is not so: in either case, a modification of the article is effected, and the difficulty which the consumer finds in obtaining it in a form fit for use is lessened; and it is easy to show that all the modifications which it successively undergoes conduce to that end. We cannot consume or use raw cotton, corn in the husk, or unground wheat. The transformations effected by art are as necessary preliminaries to use, and therefore produce wealth just as much, as the transformations effected by nature.

"The industry which prepares," says Torrens, "is, necessarily, in the order of time, secondary to that which appropriates the gifts of nature. But though man must originally have lived by merely availing himself of nature's spontaneous gifts, yet the very first, or, at most, the very second step towards knowledge and improvement, must have led him to the attempt of superadding to these gifts some rude species of preparation. Almost the whole of the productions of nature are presented to us in a new or rude state, and, if it were not for the application of labor to the preparing and forming of them, would be absolutely without utility. Without manufacturing or adaptive industry, therefore, our wealth would be necessarily limited to that scanty supply of necessaries which nature presents in a state fit for immediate consumption. Man would be reduced to a more destitute and helpless state than that in which he has ever yet been found, even in the most barbarous and savage countries."

Commerce, moreover, as a source of wealth, is equally produc-

tive with manufacturing and appropriative industry. The most precious fruits of the earth cease to constituto wealth when there is a superabundance of them, and when they no longer find wants to satisfy. Commerce comes to restore utility to them, to replace them among the articles of wealth, by transporting them to places where they are wanted. Of what avail is it for me to know, that there is tea enough in China, and coffee enough in the West Indies, — that there is cotton to spare in Carolina, and a surplus of wheat in Ohio, if some kind person will not intervene to bring these articles to my doors, and offer to me the precise quantity of each which I need, in exchange for other articles, of which I may have a superabundance? To accomplish this transportation and distribution, — each individual being accommodated with *what* he wants, *as much* as he wants, and *where* he wants it, — a large apparatus of means is necessary. Ships must be built and appointed, warehouses must be stocked, correspondence must be arranged, and the supplies must be nicely adapted to the wants and means of each locality which is to be provided for. "Roads, railways, canals, post-offices, mints, exchanges, banks, horses, carriages, the professions of bankers, merchants, brokers, factors, carriers, merchant-seamen, and many more, may be regarded as parts of the immense, complicated, and most costly apparatus of exchange." The problem already mentioned, that of supplying a large city with all its necessaries and comforts, must be solved in every part, — in all its complex details. Commerce is what renders possible that vast *division of labor*, to which the industry of civilized man owes nearly all its superior efficiency over that of the savage. He who devotes a lifetime to the manufacture of one small article — needles, for instance — must accumulate an immense store of them; and the quantity needed by any one family is so small that, if he would find purchasers for his whole stock, without the help of professed traders, he must give two thirds of his time to seeking purchasers of what he manufactures in the other third. The merchant takes up his whole stock at once, giving him its full value in whatever he most needs in return. It is a mere truism to say, that whoever converts an idle and superfluous thing into a highly useful one creates wealth. The merchant does this, by making one man's, or one country's, superfluity supply another's wants; he does it by exchanging superfluities, and thus equalizing the bounties of Prov-

idence. By his instrumentality, the hard and rugged soil of Massachusetts, with its long winter, yields to its industrious cultivator all the fruits of the tropics, all the productions of the most favored climes.

The merchant equalizes the gifts of nature in another manner, — by transportation in *time*, as well as in *space*. The surplus from an unusually abundant harvest he stores up in reserve against the possible deficiency of the next season. He gives the alarm, when there is the slightest reason to fear that the next crop may be a failure, by raising the price of the stock already on hand, and thus renders the people economical in its consumption. Through all these methods, his agency in the production of wealth is so important that he richly earns the portion of it which falls to his lot in the general distribution of values.

There is a common opinion, that the mere exchange of one article for another cannot create any additional value, and hence, that whatever may be gained by one party to the transaction must necessarily be lost by the other. But it is not so: Mr. Babbage has clearly illustrated the truth that *both* parties may be equally profited by the mere interchange of their commodities.

"It is found by experience," he says, "that the upper leather of boots made in France is better and more durable than the upper leather manufactured in England. On the other hand, it is found that the leather prepared in England for the soles of boots is less permeable by water, and more durable, than that made in France. Let us suppose that, in each country, a pair of boots will endure twelve months' continual wear, after which time they are thrown aside. In England, the destruction of the boots will arise from that of the upper leather; whilst in France, it will be caused by that of the sole. Let us also suppose that the upper leather of France will wear three months longer than the French soles, and, reciprocally, that the soles of England will wear three months longer than the English upper leather. Under these circumstances, it is clear that, if the inhabitants of each country insist on making their boots *entirely* with the produce of *their own* tanneries, the average duration of a pair of boots, both in France and England, will be twelve months. Let us assume, for the sake of simplicity, that in each country the upper leather and the soles have the same value. Then it is equally clear, if England were

to give to France a million pair of soles in exchange for a million pair of French upper leathers, that one million of the inhabitants of each nation would find their boots last during fifteen instead of twelve months."

The sum of the two commodities so exchanged evidently has a greater value after the exchange than before; and the question may be asked, Whence has the profit arisen? France and England having both been benefited, is there any third party at whose expense their joint profit has been acquired? Mr. Babbage rightly answers, that "the advantage is most frequently won by industry and knowledge from nature herself. The superior natural advantages of England — say, better bark, water, climate, etc. — for producing soles, and the superior natural advantages of France for producing upper leathers, instead of being confined to the natives of each country separately, are now, after the exchange, enjoyed equally by both."

CHAPTER III.

THE DIVISION OF LABOR: ITS BENEFICIAL AND INJURIOUS CONSEQUENCES: EFFECTS OF THE INTRODUCTION OF MACHINERY.

THE analysis of the nature of value, and of the distribution of wealth among its producers, has already brought us to the conclusion, that the co-operation of many laborers with each other is one great cause of the efficiency or productiveness of labor. Labor is divided in two ways. *First*, by allotting different portions of a process to different hands, all co-operating with each other in the production of one article; as when eighteen workmen are employed in one pin-manufactory, each devoting himself exclusively to one of the eighteen distinct operations into which the making of a pin is divided. The *second* kind of division takes place by *the separation of employments*, the several sets of laborers being employed at different times and places, and in distinct pursuits, so that their co-operation with each other, though real, is not so obvious as in the former case. These two modes of the division of labor, says Mr. Wakefield, may be termed Simple Co-operation and Complex Co-operation. The Co-operation of distinct trades, and the Co-

operation of workmen in different portions of one process, tend equally to render labor more efficient.

Thus, the manufacturer is just as dependent on the miner, the agriculturist, and the trader, as the workman who makes the head of a pin is on him who cuts the wire and him who sharpens it. The services of all are needed before all the community can obtain the article in its finished state; and therefore the ultimate and highest value of that article, the price of it when ready for consumption, is to be divided among all who have concurred in its production, each receiving in proportion to the labor he has bestowed. When is it "ready for consumption"? Not surely as soon as it has received the last touch of skill in the workshop, but only when it is offered to the person who wishes to use it, — offered, as it were, at his own door, in just the quantity that he desires, and in exchange for the only article which he is able to give for it. Here the intervention of the trader is needed; a peculiar task is to be performed, which can be done to advantage only by one who devotes himself to it altogether, without complicating it with other employments. The wholesale dealer takes off the manufacturer's whole stock, sparing him the labor of finding numerous purchasers of particular quantities; the retailers divide this stock, and circulate it through the length and breadth of the land, offering to each small villager just as little as he needs, and receiving in exchange, (sometimes through the intervention of money, and sometimes by direct barter,) whatever product the villager has to offer. The importance of the service thus rendered appears from the large portion of the ultimate value of the finished product which falls to their share; the profits of retailers in this country average from 10 to 20 per cent., or from one tenth to one fifth part of the values sold. And while competition is free, it is certain, for the reasons already explained, that this is only a fair compensation for their services; if it were not so, miners, manufacturers, and even common workmen, would turn retailers, and undersell them.

I borrow another illustration from Mr. Mill. "In the present state of society, the breeding and feeding of sheep is the occupation of one set of people, dressing the wool to prepare it for the spinner is that of another, spinning it into thread of a third, weaving the thread into broadcloth of a fourth, dyeing the cloth

of a fifth, making it into a coat of a sixth, without counting the multitude of carriers, merchants, factors, and retailers put in requisition at the successive stages of this process. All these persons, without knowledge of one another or previous understanding, co-operate in the production of the ultimate result, a coat. But these are far from being all who co-operate in it; for each of these persons requires food and many other articles of consumption; and unless he could have relied that other people would produce these for him, he could not have devoted his whole time to one step in the succession of operations which produce one single commodity, a coat. Every person who took part in producing food, or erecting houses, for this series of producers has, however unconsciously on his part, combined his labor with theirs."

The advantages of Simple Co-operation, which was formerly regarded as the only kind of Division of Labor, have been admirably illustrated by Adam Smith. An example of the effects produced by the Division of Labor may be taken from a very humble branch of industry, the manufacture of playing-cards. "It is said by those engaged in the business, that each card, before being ready for sale, undergoes no less than seventy operations, every one of which might be the occupation of a distinct class of workmen. And if there are not seventy classes of work-people in each card-manufactory, it is because the Division of Labor is not carried so far as it might be; because the same workman is charged with two, three, or four distinct operations. The influence of this distribution of employments is immense. I have seen a card-manufactory where thirty workmen produced daily 15,500 cards, being about 500 cards for each laborer; and it may be presumed that, if each of these workmen were obliged to perform all the operations himself, even supposing him a practised hand, he would not perhaps complete two cards in a day; and the thirty workmen, instead of 15,500 cards, would make only 60."

The business of watch-making in England is said by Mr. Babbage to have been divided into 102 distinct branches, to each of which a boy may be put apprentice, and taught to practise it exclusively, without learning to work at any other branch. "The watch-finisher, whose business it is to put together the scattered parts, is the only one, out of 102 persons, who can work at any other department than his own."

The prodigious increase in the efficiency of labor, caused by division of the task, is attributed by Adam Smith to three causes.

1. The increased dexterity, corporeal and intellectual, acquired by frequent repetition of one simple operation. The laborer thus acquires a *sleight of hand*, enabling him to perform his task with a rapidity which, to those who have had no experience in the work, appears truly marvellous. A child who fastens on the heads of pins will repeat an operation requiring several distinct motions of the muscles one hundred times a minute, for several successive hours. Gymnastic exercises, many feats of jugglery, and the ease and brilliancy of execution acquired by experienced performers on musical instruments, are other cases, as remarkable as they are familiar, of the rapidity and facility acquired by repetition. The same is true of operations exclusively mental; a practised accountant sums up a column of figures with a quickness that resembles intuition.

2. The saving of the time which is commonly lost in passing from one species of work to another, and in the change of place, position, and tools. Thus, says Smith, "a country weaver who cultivates a small farm must lose a good deal of time in passing from his loom to the field, and from the field to his loom. When the two trades can be carried on in the same workhouse, the loss of time is, no doubt, much less. Even in this case, however, it is very considerable. A man commonly saunters a little in turning his hand from one employment to another." "When the human hand, or the human head," adds Mr. Babbage, "has been for some time occupied in any kind of work, it cannot instantly change its employment with full effect. The muscles of the limbs employed have acquired a flexibility during their exertion, and those not in action a stiffness during rest, which renders every change slow and unequal in the commencement. Long habit produces also in the muscles exercised a capacity for enduring fatigue to a much greater degree than they could support under other circumstances." So, also, in the use of tools, time is lost in shifting from one to another; and when many implements are required for the different occupations, at least three fourths of them must be constantly idle and useless. "A certain quantity of material will in all cases be consumed unprofitably, or spoiled, by every person who learns an art; and as he applies himself to each new process, he will

waste some of the raw material, or of the partly manufactured commodity. But if each man commits this waste in acquiring successively every process, the quantity of waste will be much greater than if each person confines his attention to one process. And in general, each will be much sooner qualified to execute his one process if he be not distracted, while learning it, by the necessity of acquiring others."

3. The invention of a great number of machines, which facilitate and abridge labor in all its departments. The division of labor reduces a complex operation to many simple tasks, each of which is incessantly repeated; and this is precisely what machines may be made most easily to perform. The whole of a workman's attention, moreover, being directed to one simple object, easier and readier methods of obtaining that object are more likely to occur to him, than when his thoughts are dissipated among a variety of things. I have heard that most of the improvements in machinery, which have been made of late years in the manufactories at Lowell, were first suggested by the common workmen who were engaged in tending the machines. In the first steam-engine, says Adam Smith, "a boy was constantly employed to open and shut alternately the communication between the boiler and the cylinder, according as the piston either ascended or descended. One of those boys, who loved to play with his companions, observed that, by tying a string from the handle of the valve which opened the communication to another part of the machine, the valve would open and shut without his assistance, and leave him at liberty." Thus, one of the most important steps in the improvement of steam-engines was made by an idle boy.

4. Another advantage derived from the Division of Labor was first pointed out by Mr. Babbage, — the more economical distribution of labor, by classifying the work-people according to their capacity. "Different parts of the same series of operations require unequal degrees of skill and bodily strength; and those who have skill enough for the most difficult, or strength enough for the hardest, parts of the labor, are made much more useful by being employed solely in them; the operations which everybody is capable of, being left to those who are fit for no others." Thus, in a cotton manufactory, men, women, and children are employed on different portions of the work, and, of course, at very different

rates of wages. Obviously there would be a great waste if men were employed to perform tasks which children might do as well, or if fingers which are delicate enough for hem-stitching and embroidery were devoted to raising heavy weights or swinging sledge-hammers. In needle-making, the scale of remuneration for different parts of the process, performed by different work-people, varies from sixpence to twenty shillings a day.

5. One of the principal advantages of the Division of Labor, says Mr. Senior, "arises from the circumstance that the same exertions which are necessary to produce a single given result are often sufficient to produce many hundred or many thousand similar results. The Post-Office supplies a familiar illustration. The same exertions, which are necessary to send a single letter from Falmouth to New York, are sufficient to forward fifty, and nearly the same exertions will forward ten thousand. If every man were to effect the transmission of his own correspondence, the whole life of an eminent merchant might be passed in travelling, without his being able to deliver all the letters which the Post-Office forwards for him in a single evening. The labor of a few individuals, devoted exclusively to the forwarding of letters, produces results which all the exertions of all the inhabitants of Europe could not effect, each person acting independently."

The extent of the Division of Labor must always be limited by the extent of the market. Ten workmen can make 48,000 pins in a day; but they cannot do so to advantage unless there is a daily consumption of pins to that amount. If there be a daily demand for no more than 24,000 pins, they must either lose half the day's work, or change their occupation, — that is, lessen the Division of Labor by engaging in two separate tasks. Hence, the Division of Labor cannot be carried to its farthest limit except in the case of products capable of distant transport and the consequent increase of consumption; or where the manufacture is carried on amidst a dense population, creating an extensive local demand. Where the population is limited, many trades, elsewhere distinct, are practised by the same individual. In a small village, the same person is surgeon, doctor, and apothecary; while in a large city there is separate employment for each of these practitioners, and even for subdivisions of their profession into the several occupations of dentists, oculists, accoucheurs, etc. The

village grocer deals not only in groceries, but in dry-goods, crockery, hardware, books, and stationery.; and if a Yankee, he may also edit, print, and publish a newspaper, keep a school, and go to Congress. In large cities, the sale of a single article of grocery may form a large and lucrative business: in Boston and New York, there are shops where nothing is sold but tea. All improvements in the modes of transportation, as by roads, canals, and railways, obviously promote the Division of Labor, by widening the market which each locality can command for its special products.

"The Division of Labor is also limited, in many cases," says Mr. Mill, "by the nature of the employment. Agriculture, for example, is not susceptible of so great a division of occupations as many branches of manufactures, because its different occupations cannot possibly be simultaneous. One man cannot be always ploughing, another sowing, and another reaping. A workman who only practised one agricultural operation would be idle eleven months of the year. The same person may perform them all in succession, and have, in almost every climate, a considerable amount of unoccupied time. The combination of labor of which agricultural industry is susceptible is chiefly that which Mr. Wakefield calls Simple Co-operation, — many persons employed together in the same work. To execute a great agricultural improvement, it is often necessary that many laborers should work together; but in general, except the few whose business is superintendence, they all work in the same manner. A canal or a railway embankment cannot be made without a combination of many laborers; but they are all excavators, except the engineer and a few clerks."

The advantages of the Division of Labor, however, we must admit, are subject to one serious drawback. Few things tend so effectually to dwarf the mind and stunt the faculties as the incessant and long-continued repetition of a very simple task, — a mechanical movement, which is repeated with as little effort of thought as if it were performed by a machine. Even Adam Smith remarks, that constant application to such a task "necessarily renders the workmen as stupid and ignorant as it is possible to make a human being." And Say adds, that "a man whose whole life is devoted to the execution of a single operation

will most assuredly acquire the faculty of executing it better and quicker than others; but he will, at the same time, be rendered less fit for every other occupation, bodily and intellectual; his other faculties will be gradually blunted and extinguished, and the man, as an individual, will degenerate in consequence. To have never done anything but make the eighteenth part of a pin is a sorry account for a human being to give of his existence." The division even of intellectual labor, however it may tend to excellence, and insure success, in a single department, is not without a similar pernicious result. The successful pursuit of a single art, or of the fraction of a single science, is but poor compensation for the loss of all versatility and alertness of mind, and for allowing most of the faculties to rust by disuse. One may become a good accountant, an expert mathematician, even a skilful lawyer, without being anything more than the fraction of a man.

"The difference of natural talents in different men," says Adam Smith, "is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not, upon many occasions, so much the cause, as the effect, of the Division of Labor. The difference between the most dissimilar characters — between a philosopher and a common street-porter, for example — seems to arise, not so much from nature, as from habit, custom, and education. When they came into the world, and for the first six or eight years of their existence, they were very much alike, and neither their parents nor playfellows could perceive any remarkable difference. About that age, or soon after, they come to be employed in very different occupations. The difference of talents comes then to be taken notice of, and widens by degrees, till, at last, the vanity of the philosopher is willing to acknowledge scarce any resemblance. But without the disposition to truck, barter, and exchange, every man must have procured to himself every necessary and conveniency of life which he wanted. All must have had the same duties to perform, and the same work to do; and there could have been no such difference of employment as could alone give occasion to any great difference of talents."

"As it is this disposition which forms that difference of talents so remarkable among men of different professions, so it is this

same disposition which renders that difference useful. Many tribes of animals, acknowledged to be all of the same species, derive from nature a much more remarkable distinction of genius, than what, antecedent to custom and education, appears to take place among men. By nature, a philosopher is not in genius and disposition half so different from a street-porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a a shepherd's dog. Those different tribes of animals, however, though all of the same species, are of scarce any use to one another. The strength of the mastiff is not in the least supported either by the swiftness of the greyhound, or by the sagacity of the spaniel, or by the docility of the shepherd's dog. The effects of those different geniuses and talents, for want of the power or disposition to barter and exchange, cannot be brought into a common stock, and do not in the least contribute to the better accommodation and conveniency of the species. Each animal is still obliged to support and defend itself, separately and independently, and derives no sort of advantage from that variety of talents with which nature has distinguished its fellows. Among men, on the contrary, the most dissimilar geniuses are of use to one another; the different products of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for."

The superior efficiency and productiveness of industry at the present day, as compared with the industry of former times, is due not only to the Division of Labor, but to the use of better tools and implements, and to the invention of improved machines and cheaper processes of manufacture. Perhaps the leading characteristic of the nineteenth century has been the rapid progress of invention, and the consequent multiplication and cheapening of all the material products that satisfy human wants. These improvements consist in economizing man's time and industry, either by causing natural agencies, such as steam, electricity, magnetism, or heat, to do the work, or by making a happier application and more frugal use of the powers already employed. "One of the most striking qualities of machinery," says Mr. Senior, "is its susceptibility of indefinite improvement." In the manufacture of iron and

steel, and the application of them to a vast number of new purposes; in the transportation of men and goods, and the transmission of intelligence; in the use of new materials, such as caoutchouc, gutta-percha, gas, and petroleum; in the work of a great printing-office, like that of The Times newspaper; and even in the implements and processes of agriculture now in use, — so much has been accomplished, that we may safely say the amount of possible enjoyment has been quadrupled, and one man now often does what would have been the work of a thousand only fifty years ago.

Often the immediate consequence of introducing an improved process, or a new machine, is so to economize human labor that many workmen are thrown out of employment, and wages are, for a while, considerably depressed. In most cases, however, the ultimate result is, through cheapening the price, so far to increase the demand for the products, that more persons than ever are employed in their formation, and wages rise again. Railroads have, in a great degree, created the travel and the traffic which they so much facilitate and cheapen, and thus give employment to laborers greatly exceeding in number the stage-drivers and wagoners whose occupations were superseded by them. The invention of printing deprived many copyists of work and wages, but has so multiplied books and newspapers, that there are now probably more persons employed in making books, than there were, in the fifteenth century, in reading them. Generally speaking, the progress of invention has enlarged, rather than contracted, the field for the employment of industry.

But I doubt whether it has been so in every instance. The demand for an article is sometimes limited by natural causes, irrespective of its dearness or cheapness; and in such case, any improvement which will diminish the labor required for its production must permanently deprive some laborers of employment. Thus, the demand for bread must be limited by the size of the population, — that is, by the number of mouths to be fed: cheapen its production ever so much, and very little more will be called for. Hence, it may be feared, the use of the steam-engine in many kinds of farm-work, and the recent invention of so many sowing, reaping, mowing, and threshing machines, have permanently diminished the number of agricultural laborers, and thereby lowered the rates of wages everywhere, even in manufactures.

This is one of the causes — others will be pointed out hereafter — why the number of persons engaged in agriculture in Great Britain is constantly becoming less, so that a process of depopulating the rural districts seems to be going on, at the same time that pauperism is increasing, and the multitudes who take refuge in the cities and manufacturing towns find little employment there and scant wages. Through the extended use of such machinery, indeed, a great farm comes to resemble a huge manufactory, in which steam furnishes the whole motive power, and the number of human beings employed is small out of all proportion to the quantity of work done. This result is a triumph of inventive skill and money-making ingenuity; but it is a matter of evil omen for the classes who are entirely dependent upon the wages of labor. The recent invention of the sewing-machine has taken away work and wages from many seamstresses, journeymen tailors, and shoemakers; and I doubt whether it has increased, in anything like the same degree, the demand for clothes, boots and shoes, and other sewed fabrics; since this demand must be regulated by the number of people who need to be clothed and shod. The construction of machinery, of railroads and canals, and of great works of irrigation, as in India, not only lessens the demand for manual labor, but takes away from the power of paying wages for it, through converting large amounts of Circulating Capital into Fixed Capital.

CHAPTER IV.

THE NATURE OF CAPITAL, AND THE MEANS OF ITS INCREASE: CIRCUMSTANCES WHICH FAVOR THE GROWTH OF CAPITAL: THE SECURITY OF PROPERTY.

ANOTHER circumstance on which the efficiency of labor largely depends is the co-operation of capital, or stock. All capital is wealth, but all wealth is not capital. The furniture of a rich man's house, for instance, — his carpets, his plate, his paintings, and much even of the food which is daily placed upon his table, — forms a portion of his wealth, but not of his capital. All these articles contribute to his enjoyment; perhaps some of them are

necessary for his sustenance; but they do not directly aid him in the creation of other values. As they are consumed, or slowly worn out, they create nothing to replace them, and leave behind them nothing but the remembrance of the gratification which they have afforded. They are the fruit of previous industry indeed, having been created, as all other values are, by labor; but with the exception of the little food which is necessary to support life, they do not sustain present labor, — do not aid in the production of fresh values. *Capital is that portion of wealth which is consumed, not for purposes of mere enjoyment, not for immediate gratification, but to aid in the production of more wealth.* It is still consumed, with greater or less rapidity; but its value disappears in one shape only to reappear in another.

The necessity for the employment of capital arises from the fact that man cannot labor to any good purpose with his hands alone. He must have tools, implements, machinery, raw material; if the article on which he is engaged requires time for its manufacture, he must be fed, clothed, and lodged while he is occupied in manufacturing it. *The aggregate of wealth existing in these various forms, designed either to aid the laborer in his work, or to support him while working, is capital.* It is consumed, but its value appears again in the larger amount of wealth which industry produces when thus assisted. The tools and machinery wear out; but the products which they have aided in creating enable the capitalist to replace them with a profit. Raw cotton is consumed in large quantities, and reappears as cloth; the seed-corn is buried in the earth, but in a few months the harvest yields twenty or thirty fold.

Labor is limited by capital, because labor cannot be prosecuted to any advantage without capital. Yet this fact does not contradict our general proposition, that wealth is created by labor alone; for capital itself is created by labor, and might be called *consolidated or invested labor.* But although labor is thus limited, it is by no means proportioned to the amount of capital employed. A master-shoemaker, with a capital of not more than $ 5,000, may keep twenty journeymen and apprentices in constant employment; while a manufacturer of gold and silver plate, or a wholesale merchant, with a capital of half a million of dollars, may not pay wages to more than thirty or forty persons. McCulloch observes, that "a manufacturer's power to employ labor is not measured by the

total amount of his capital, but by the amount of that portion only which is *circulating* capital. A capitalist possessed of a hundred steam-engines, and of £ 50,000 of circulating capital, has no greater demand for labor, and does not, in fact, employ a single workman more, than the capitalist who has no machinery, and only £ 50,000, devoted exclusively to the payment of wages." Boots and shoes, for instance, were formerly manufactured without machinery, and with the aid only of a few cheap tools. With a lapstone, a hammer, a knife, and an awl, the journeyman can begin work; and even the raw material which he needs is so frequently "turned over," as the phrase goes, or so quickly converted from leather into merchantable boots and shoes, that, if the articles can be sold as soon as they are manufactured, a few dollars will keep him constantly supplied with sufficient stock. On the other hand, an immense capital must be vested in machinery before the business of weaving cotton or woollen cloth on a great scale can begin.

Even in the rudest states of society, among savage nations, capital exists, though in small quantities, and performs its appropriate functions. "The wretched native of New Holland," says Colonel Torrens, "has his spear, his fishing-implements, and his canoe, for the purpose of abridging his labor, — of performing operations of which he would otherwise be incapable, and appropriating productions of nature which, but for the aid of these rude instruments, would forever have remained beyond his reach." Before he labors directly to capture the wild tenants of the forests and the rivers, he labors to prepare himself for the task by manufacturing the necessary implements; consequently, the exchangeable value of the articles which he finally obtains is measured by the quantity of labor, both direct and indirect, which was devoted to their production. No one will give labor of either sort for nothing. That which was bestowed on the manufacture of bows and arrows must be compensated just as much, and in the same ratio, as that which was given to the pursuit and killing of wild animals; otherwise, no one will make bows and arrows. The law of distribution, therefore, that the value of the completed product will be divided among its producers in exact proportion to the labor bestowed by each, is not altered by the co-operation of capital with labor. The profits of capital are the reward of labor, just as much as the wages directly paid to the laborer.

Capital exists, as I have said, among savages; and it accumulates very rapidly with the progress of civilization. So rapid, indeed, is its increase, and so vast becomes its aggregation, that it constitutes the chief difference in point of efficiency between the labor of the savage and that of civilized man. The Australian or the Indian may be as muscular as the European; he often works as hard, and is even more capable of enduring hardship and privation. He also practises the division of labor to some extent, as a whole tribe often unite in the chase or in war, and make larger captures by acting in concert and parcelling out the work among each other. But their labor on the whole is miserably inefficient and unproductive, because it is aided only by a trifling amount of capital.

The savage does not amass capital, because he is incapable of foresight and self-denial. What he obtains is devoted to the gratification of the present moment, or is wasted. This, in truth, is the chief reason why he does not till the ground; he often has knowledge enough for this end, his powers of observation being largely developed. He notices slight peculiarities of vegetation, which escape the eye of the white man, and by this means is often enabled to find his way through the trackless forests. He knows that edible fruits and grains are produced from seed. But he is not economical and prudent enough to reserve seed-corn for agriculture, or to lay in a store of food which will enable him to expend labor on the ground; to dig and plant, with the expectation of reaping the fruits of his labor only after an interval of some months. He is obliged to give all his toil to the necessities of the present hour, because he is not prudent enough to save, and not industrious enough to work when there is no immediate necessity for working.

Though the common opinion runs the other way, I believe that man has no natural instinct for saving, no original propensity for labor, — none, at least, that is not constantly overridden by other and stronger propensities. The hardest lesson for children and savages to learn is that of economy, — the necessity of bridling the inclination or appetite of the moment, with a view to some prospective benefit. Long and hard experience has taught this lesson to the full-grown and reflecting man, and taught it so effectually that, as is often the case, the acquired inclination

overrides the original impulse, and all other passions are merged, not merely in the love of accumulation, but in that of saving. We not infrequently hear of misers who will give away thousands, while they are depriving themselves almost of the necessaries of life for the sake of saving units. Exertion is naturally pleasant, it is true; yet only when directed by the caprice of the moment, as in sport; not the long-continued and monotonous exertion which is necessary for the attainment of a future good. *That* always requires self-restraint, a contest with and a victory over our original inclinations.

This view of the difference between the barbarian and the civilized man leads directly to a knowledge of the origin of capital, and the means of its increase. It begins in *saving*, and is enlarged only by the continued exercise of *frugality*. Labor creates wealth, the object of which is, as we have seen, the gratification of desire; and the portion of wealth which is saved from the gratification of our immediate wants, and reserved to aid our future labor, so that the future product may be greater, is capital.

The inducement to the practice of such frugality is always strong enough in a civilized community; for the ability to save increases in a geometrical ratio with its exercise. *C'est le premier pas qui coûte.* The hardest struggle, the severest exercise of self-denial, is to make the beginning, — to spare a little from our daily comforts, when as yet we are entirely dependent upon the fruits of our unaided labor. Afterwards, that little which was reserved works along with us, and the surplus is greater at the end of the second year, though we have practised no additional self-restraint. Soon, the aggregate of these savings produces more than our original earnings, and our expenditures may come up again to the full measure of what they would have been if no frugality had been practised at the outset; and yet accumulation goes on as rapidly as if we had been able to reserve the whole original product of our labor, and subsist upon nothing. The industrial organization of society is now so perfect, that the smallest savings can be utilized, or devoted immediately to active employment as capital. This rapid progress of accumulation, operating like the constantly accelerating force of gravitation, supplies the strong motive for frugality, which operates like a charm in the swift growth of national opulence.

It is now easy to explain the difference, on which so much stress is laid, between Productive and Unproductive consumption. Take the case, referred to in a former chapter, of a laborer who has saved $100 from his yearly earnings. At the end of the year, having this sum in reserve, he may immediately expend it all in giving an entertainment to his friends, or purchasing finer clothes and furniture for his family. In neither case would the values thus consumed aid, either his labor, or that of any other being: in the first case, it would be consumed all at once, the wine being drunk, the music heard, the delicacies eaten; and there would be an end of his savings: in the other case, the enjoyment would only be spread over a little longer time; the clothes and furniture, in the course of a few months or years, would be worn out, and the $100 would then have equally disappeared without return. Such is what is termed Unproductive consumption.

But let us suppose, as before, that at the end of the year, he placed the money in a Savings' Bank, or bought a machine with it, by the aid of which his labor would produce half as much again as in the former twelvemonth. In the bank, as has been shown, it would successively and rapidly assume different forms, at each transformation aiding labor or setting it in motion, at each yielding a profit, and leaving a final profit for the benefit of him who deposited it. This share of profit accruing to the owner is comparatively small, because he has committed the management of his property, and the risk of losing it, to others, and they must be paid for the labor and hazard of its superintendence. If he chooses to use it himself, as in the case supposed of purchasing a machine with it, his yearly earnings will be much increased, and the surplus will be enough to keep the machine in repair, to buy another when the first one is worn out, and to leave a larger profit at the end of the year; which surplus, again, he may spend productively or unproductively.

In all the cases now enumerated, it is evident that the laborer's surplus earnings are consumed. In the first two cases, being consumed only to obtain present enjoyment, whether of a longer or shorter duration, they never appear again; in the last two, being consumed only for the purpose of aiding labor, they reappear in the increased product of that labor. And so it must be in every supposable case, except where the savings are obtained in the form

of gold or silver money, and are buried in the earth; then, indeed, they are not consumed, because they are not used at all, either for present gratification or future gain.

We see the fallacy, then, of the common opinion, that the prodigals who waste their substance in riotous or ostentatious living, though they and their families afterwards suffer for it, are yet benefactors to the community, because their liberal expenditures keep laborers in employ, increase the profits of shop-keepers, and diffuse benefits all around them. He who saves, on the contrary, appears in the light of one who hoards; saving seems but another word for keeping a thing to one's self, while spending appears to be distributing it among others.

This popular error arises chiefly from the fact that the wasteful person consumes his income and his capital mostly on the spot where he resides, where the public eye can follow his wealth, and see it passing into the hands of laborers, tradesmen, and dependents. But these persons do not obtain it for nothing. They give services, goods, articles of luxury, in exchange; and when these services are rendered, and the articles consumed, there is an end of the prodigal's wealth. He has nothing left, and they are but little richer than before, having only made their ordinary gains, or received their accustomed wages. The community, then, is the poorer by the whole amount which the prodigal has squandered. The savings of the frugal person, on the other hand, are often withdrawn from sight of the immediate neighborhood, being quietly invested in a bank or manufactory, where they are consumed productively; that is, they are still applied to the purchase of labor or goods, and so equally keep industry in motion, though this beneficial result is not easily traced back, and ascribed to the proper author of it.

To make this point clearer, I will take a particular example. Suppose a prodigal maintains an establishment of ten menial servants, at an expense of $3,000 a year. At the end of the year, he has expended this portion of his capital, and the servants have received their usual wages; but as they have toiled only to pamper his desire of enjoyment, and to gratify his love of ostentation, no products of their labor remain at the end of the year, and they are no better off than they would have been if they had obtained equal wages for making boots and shoes, or laboring on a farm.

Then suppose a frugal person, having an equal sum of $3,000 a year to spend, instead of hiring menial servants with it, should invest it in the shoemaking business, or in agriculture. It is obvious that an equal number of persons might thus be employed, and at the same wages; at the end of the year, moreover, instead of nothing being left, there would be an additional stock of one or two thousand pairs of boots and shoes, or of four or five thousand bushels of corn. The capital of the frugal person and the riches of the community would thus be augmented to the extent perhaps of $4,000 (ordinary allowance being made for profits); and this would be a fund for the support of industry, for an indefinite period, or until it came into the hands of a prodigal who should waste it in luxuries and self-indulgence.

It should be observed, that the only fund from which savings can be made, and capital thereby increased, is the *annual income* or *revenue* of the individual. If the manufacturer, for instance, at the end of the year, has merely got his capital back again, the values created exactly replacing those which were consumed, though he has preserved his property, he has effected no saving; he is neither richer nor poorer than he was before. His capital ought to be replaced *with a profit;* and the aggregate of the profits for a year, not the aggregate of all the values produced during that time, constitutes his income or revenue. This income, like the year's wages of a laborer, seems to be the fund naturally designed for his own maintenance and that of his family. A portion of it *must* be spent in this manner, — that is, must be spent unproductively; for health and strength must be kept up by food, drink, and clothing; in addition to which, in order to keep up the full vigor of mind and body, a small portion of every one's income ought to be devoted to amusement and a few luxuries. But if these personal expenditures, and the replacement of the capital consumed during the year, do not absorb the whole income, what remains is a true saving, an addition to capital, a benefit both to the individual and the community.

"It would be a great error," says Mr. Mill, "to regret the large proportion of the annual produce which, in an opulent country, goes to supply unproductive consumption. It would be to lament that the community has so much to spare from its necessities, for its pleasures and for all higher uses. This portion of the produce

is the fund from which all the wants of the community, other than that of mere living, are provided for, — the measure of its means of enjoyment, and of its power of accomplishing all purposes not productive. That so great a surplus should be available for such purposes, and that it should be applied to them, is a subject only of congratulation."

The wealth which is employed in creating more wealth has been divided by Adam Smith into Fixed and Circulating Capital. "There are two ways," he says, "in which a capital may be employed so as to yield a revenue or profit.

"First, it may be employed in raising, manufacturing, or purchasing goods, and selling them again with a profit. The capital employed in this manner yields no revenue or profit to its employer while it either remains in his possession or continues in the same shape. The goods of the merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him in one shape, and returning to him in another; and it is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may properly be called *Circulating* capitals.

"Secondly, it may be employed in the improvement of land, in the purchase of useful machines and implements of trade, or in such like things as yield a revenue or profit without changing masters, or circulating any further. Such capitals, therefore, may properly be called *Fixed* capitals."

This distinction has been further illustrated by the remark, that Circulating Capital fulfils the whole of its office in production by a single use; while Fixed Capital produces its effect, not by being parted with, but by being kept, and its efficacy is not exhausted by a single use. Observe, also, that the same articles may be Circulating Capital while in the hands of one person, and become Fixed Capital as soon as they are transferred to another. A stock of finished ploughs, for instance, belongs to the former class while they are owned by the manufacturer, or the merchant, who expects not to use, but to sell them, and can obtain his profit only from the proceeds of such a sale; but they become Fixed Capital when they are purchased by the farmers, who expect to retain and use them till they are worn out.

Fixed Capital, Adam Smith remarks, "consists chiefly of the four following articles: —

"First, of all useful machines and implements of trade which facilitate and abridge labor.

"Secondly, of all buildings used for the purpose of trade or manufacture, such as shops, warehouses, and farm buildings. They are a sort of instruments of trade, and may be considered in the same light.

"Thirdly, of the improvements of land, — of what has been profitably laid out in clearing, draining, enclosing, manuring, and reducing it into the condition most proper for culture. An improved farm may be regarded in the same light as one of those useful machines which facilitate and abridge labor.

"Fourthly, of the acquired and useful abilities of all the members of the society. The acquisition of such talents by the maintenance of the acquirer during his education, study, or apprenticeship, costs an expense, which is a capital fixed and realized, as it were, in his person. The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labor.

"The Circulating Capital is composed likewise of four parts: —

"First, of the money by means of which all the other three are circulated and distributed to their proper consumers.

"Secondly, of the stock of provisions in the possession of the butcher, the grazier, etc., for the purpose of sale.

"Thirdly, of the materials, whether altogether rude, or more or less manufactured, — of clothes, furniture, and building, which are not yet made up, but remain in the hands of the growers, manufacturers, or merchants.

"Fourthly, of the work which is made up and completed, but is still in the hands of the merchant or manufacturer; such as the finished work in the shops of the smith, the goldsmith, the jeweller, and the China merchant. The Circulating Capital consists in this manner of the provisions, materials, and finished work of all kinds, which are in the hands of their respective dealers, and of the money that is necessary for circulating and distributing them to their final consumers."

To this enumeration by Adam Smith must be added two classes of articles, which seem to have been excluded by him for insuffi-

cient reasons; namely, food and the other necessaries of life, and dwelling-houses. The name of *capital* has been denied to these two classes of things, because they are consumed as revenue, with a view to subsistence or enjoyment, and not as capital, with a view to production. But it may be replied, that the laborer, before he can construct or fashion anything, must not only have raw materials and tools, but must be secure of a lodging and a dinner. An expenditure for all four of these objects is necessary before he can complete his task; and the aggregate of such expenditure is therefore properly considered as an advance of capital, the means for this advance having been previously obtained by abstinence or frugality.

The circumstances on which the rapidity of accumulation, or the growth of capital, depends, are various, and the study of them is one of the most interesting researches in which the economist or the historian can engage. Laws and political institutions generally have a vast influence in this respect, as well as differences of national character and peculiarities of geographical position. The results of the former may often be traced, by the light both of theory and history, in quarters where they would be the least suspected; the most prominent and marked effect being frequently attributable to the noiseless working, through many generations, of peculiar customs and laws, which do not attract much notice precisely because they are ingrained or deeply seated.

Our general question is, When is labor most energetic, universal, and effective in the creation of wealth, and by what means are the motives to accumulation from savings most strongly stimulated? I cannot attribute much importance in this respect to what are called the natural advantages of a country, — its genial climate, fertile soil, large expanse of territory, or happy geographical position. These natural advantages, as they are termed, have fearful drawbacks in the indolence and sense of security which they foster, and the luxurious habits to which the people who possess them incline, their chief luxury always being *repose*. Some of the countries of South America are as highly favored in these respects as any part of the habitable globe; but it is not to this portion of our continent that we look for instances of the most rapid growth of national wealth. "In the ancient world and in the Middle

Ages," it has been well remarked, "the most prosperous communities were not those which had the largest territory or the most fertile soil, but rather those which had been forced by natural sterility to make the utmost possible use of a convenient maritime situation; as Tyre, Marseilles, Venice, the free cities on the Baltic, and the like." And that we may not over-estimate even this convenience of position, it should be remembered that Athens, Tyre, and Venice stand just where they did, though their commercial glory has long since passed away. The geographical position of Greece, with its long line of deeply indented sea-coast on a tideless sea, is precisely what it was when Greece almost monopolized the commerce and the arts of the Mediterranean. She is now the most insignificant kingdom in Europe, and with difficulty supports an ignorant and thinly scattered population.

Natural wealth enervates both body and mind. Where an abundance can be had with little labor, much labor will never be practised. What seems a paradise on earth, the nearest natural semblance of a Garden of Eden, may be found in the isles of the South Pacific, or in the West Indies, where a race of white colonists seem to be fast becoming as feeble and brutish as were the natives whom they dispossessed. Here again, as in so many other instances, we are reminded that the essential quality of wealth, properly so called, is difficulty of attainment, — difficulty that can be overcome only by long and strenuous exertion.

The principal causes of the rapid growth of national opulence are moral rather than physical; a situation which shall make foreign commerce at least practicable seems to be the only indispensable condition that is not connected with the character of the people. The moral causes which most effectually stimulate labor and frugality, and thereby make capital accumulate most rapidly, are, —

1. That the laborer shall be sure of receiving the full amount of his wages, or shall be protected in the ownership of the values which he has produced.

2. That the skill, intelligence, and education of the laboring classes generally shall be raised to the highest point, — so that, the labor of one well-trained mechanic being as effective at least as that of three raw hands or mere laborers, the working class shall contain as many as possible of the former, and as few as possible of the latter description.

3. That the savings when made, or the capital when accumulated, shall be attended with as high a rate of profit, and as large a measure of physical comfort, social consideration, and political influence as possible.

The illustrations which may be offered upon these three points are enough, I think, to prove that they are vastly more important than any amount of natural advantages, including even that on which most stress has been laid, — the inherited qualities of race, or the national, inbred inclination to labor and enterprise. I am no great believer in the natural excellences of Anglo-Saxon blood, but I have great faith in the acquired excellences of Anglo-Saxon institutions. My reason for distrust in the former element is, that time was, — and not many years ago, — when the Dutch certainly, if not the Swiss also, were decidedly superior to the English in industry, frugality, and the spirit of commercial adventure. In this last respect, even the Spaniards and the Portuguese were ahead of their English competitors. And here in America, where our population is a conglomerate of all the races of the earth, the first generation born on American soil, be its parents English, Irish, Dutch, French, or German, is sure to show the characteristic American trait, — a disposition to toil, to dare, and to save. I am inclined to refer this peculiarity altogether to our "institutions"; — understanding, however, this term in its widest sense; making it comprehend not merely our republican polity, our national and State organizations, but our republican habits, feelings, and tendencies, — our disposition to manage our own affairs in our own town-meetings, and there to allot the greatest trust to him who is distinguished above all others by this very American trait, this disposition to toil, to dare, and to save, be his race or parentage what it may.

First, then, *security* in the receipt and enjoyment of the fruits of labor is not merely the great stimulus, but the indispensable prerequisite, to general industry and frugality. "Security" means not only the absence of war, tyranny, intestine commotions, and all other causes of spoliation, interference, and undue control, but the absence of any *dread*, — of any great probability of such unhappy contingencies. Labor and enterprise are elastic, and will quickly recover from the effects of any sudden or unexpected misfortune, however great, if the workmen or adventurers *think* they

have a reasonable protection against its recurrence. If the calamity is such that the country is not actually depopulated by it, the next harvest will make up the temporary scarcity of food, and less than a year's labor will replace the customary stock of manufactured commodities; for the Circulating Capital of the manufacturer is usually "turned over," as the phrase goes, or consumed and reproduced, oftener than once in a year; and if his Fixed Capital, his machines, buildings, and other improvements, require a little longer time for their *value* to be restored, (the potent influence of *credit* causing them to be actually rebuilt in a very short period,) it is still matter of certain calculation, that a few years will make up the loss. But if a dread should hang over the people, lest a similar catastrophe should soon recur, few would labor at all, and these few would put but little heart into their work: not many are willing to produce what others are to consume. The general feeling would be like that which prevails on shipboard after all hope of saving the vessel is lost: "Let us eat and drink, for to-morrow we die."

Take, for instance, the once very fertile and finely situated tract, called Mesopotamia from its position between the two great rivers Tigris and Euphrates, — now a parched and dusty plain, roamed over, rather than inhabited, by a few tribes of half-starved Bedouin Arabs. Yet there stood, and there now stand the ruins of, the great city of Nineveh, that "exceeding great city," of three days' journey, which probably contained over half a million of inhabitants. What a vast suburban and rural population must have existed in the immediate vicinity, in order to supply that great and wealthy metropolis with food! Over three thousand years ago, the banks of the Tigris must have been nearly as populous as are now the banks of the Seine near Paris. Their depopulation and consequent aridity — but few traces now remaining of the gigantic works by which that great plain was formerly irrigated — must be ascribed to the constant sense of insecurity arising from many changes of dynasty, predatory inroads, invasion and conquest, and the rigors of war exercised by barbarian conquerors. Yet these invasions, so far as appears from history, were not so frequent but that the people might with ease have recovered from them during the intervals, had not the constant fear that they might recur at any day gradually paralyzed all effort, till the na-

tion at last wasted away, and a feeble remnant sought shelter among the mountains, leaving that fertile plain to desolation.

Such are the evils of a government which cannot withstand aggression from abroad. Hardly less injurious in its effects is the government which is too feeble or indolent to protect the people against themselves; which cannot enforce the laws, or guard the community against the machinations and violence of the turbulent, the discontented, and the ambitious, so that society is a constant prey to rapine, confusion, and civil broils. Hence the present condition of Mexico and most of the South American republics, where, though the soil and climate are among the finest on earth, and mineral wealth abounds, yet agriculture is impeded, trade languishes, and manufactures cannot be established, the bonds of society being virtually dissolved, and the country wasted by anarchy and misrule.

Arbitrary exactions, uncertain in amount, and uncertain as to the time when they will be made, do vastly more injury than larger amounts taken by fixed and regular taxation. Industry will accommodate itself to heavy burdens, and even flourish under them, if the pressure be equable and constant, so that all calculations respecting the future may be made with as much certainty as if there were no weight to support. The regular tax comes to be esteemed as one of the charges, or a part of the cost, of production, — having the same effect as a more rigorous climate, or a less fertile soil, would have, in increasing the amount of labor required. The people of the United States, for instance, are at this moment taxed more heavily, — they pay a larger sum to their rulers, than was ever levied from a population of equal size by the most cruel and despotic government of ancient times. If it were possible to distribute the enormous weight of this taxation with perfect equality and fairness, making it bear on all interests alike, and on every individual in just proportion to his means, I should be far from considering it as any material obstacle to the prosperity of the country. But the changes which from time to time become necessary, or are thought to be necessary, in that distribution, are more serious evils. The change when completed in all its effects, the new law once thoroughly incorporated by time with the old ones, may be an improvement; but the transition is always injurious. Better a bad system, so that it be fixed, than a fluctuating and uncertain one. An alteration of the law, a shifting of the

burden, always produces some change in the direction of labor and capital, whereby a portion of the skill already acquired by practice is wasted, a portion of the machinery already built becomes useless, and time and capital must be consumed in learning new employments and constructing new machines. This is one evil caused by change; and another is, that, most of the operations of industry in modern times being complex, and covering much time and space, people are tempted to engage in them only by the nice calculations that are made of their probable ultimate results: any uncertainty as to the manner in which these results may be affected by taxation, any probability that the law may be changed while the process is yet incomplete, may prevent the enterprise from being undertaken at all. It is not too much to say, that, in this country, for the last fifty years, there has not been a time when commercial and manufacturing enterprise was not materially retarded by the apprehension that the Congress then in session, or the ensuing one, might make some important modifications in the tariff of customs-duties, the banking system, and the state of the currency.

"The only insecurity," says Mr. Mill, "which is altogether paralyzing to the active energies of producers, is that arising from the government or from persons invested with its authority. Against all other depredators there is a hope of defending one's self. Greece and the Greek colonies in the ancient world, Flanders and Italy in the Middle Ages, by no means enjoyed what any one with modern ideas would call security; the state of society was most unsettled and turbulent; person and property were exposed to a thousand dangers. But they were free countries; they were neither arbitrarily oppressed, nor systematically plundered, by their governments. Against other enemies, the individual energy which their institutions called forth enabled them to make successful resistance. Their labor, therefore, was eminently productive, and their riches, while they remained free, were constantly on the increase."

"Much of the security of person and property in modern nations is the effect of manners and opinion, rather than of law. There are countries in Europe where the monarch is nominally absolute; but where, from the restraints imposed by established usage, no subject feels practically in the smallest danger of having

his possessions arbitrarily seized, or a contribution levied on them by the government." These countries — Russia, for instance — are far better off in respect of security than France, where, not long ago, the institutions of government were nominally similar to our own, but where there is great probability of a revolution once a fortnight. No government is ever wicked enough to aim directly and avowedly at the encouragement of vice, the distress of innocence, and the punishment of goodness. Even an Asiatic despotism professes, and probably intends, to punish theft, perjury, fraud, and unprovoked injury, in all cases where its own interest is not immediately concerned; that is, of course, in the great majority of cases that arise among its subjects. It may omit many of the forms and precautions that civilized nations have come to observe as the safeguards of innocence and preservatives against unintentional wrong; it may administer wild justice, but justice is its aim; it wields the sword against unprovoked aggressions upon persons or property, and often with terrible effect.

CHAPTER V.

THE INCREASE OF CAPITAL AS AFFECTED BY THE ENCOURAGEMENT OF MANUFACTURES, AND BY THE CONCENTRATION OF THE PEOPLE IN CITIES AND TOWNS.

The second of the moral causes indicated as affecting the increase of capital is, that such increase is most rapid in any country when, from the variety of employments that exist there, most of its inhabitants may be engaged in those occupations for which they are peculiarly fitted by nature, which require most skill and intelligence, and in which, consequently, their labor is most productive.

If the labor of one practised and skilful artisan is equal to that of at least three raw hands or rude laborers, then it is very much for the economical interests of a country, that as many as possible of its inhabitants should be skilled artisans, and as few as possible should be raw laborers. We say "as many as possible"; because *some* rude labor is always needed. There must be, in every country, some hewers of wood and drawers of water, — some work that

tasks a man's thews and sinews very severely, while it affords but little employment to his brains, — such work as is often performed by machines and domesticated animals, but which the circumstances of time and place sometimes absolutely require to be performed by men, — usually by men who are capable of nothing else. There is a large proportion of such work required in agriculture, where one skilful and careful farmer can profitably direct the exertions of a dozen or more hands, in such operations as ditching, fencing, making hay, and the like. Many, though not *so* many, laborers of this lowest class are also required in manufactures, where numerous skilled and expert hands require to be waited on by mere porters and hewers, in order that the valuable time of the former may not be wasted on the coarser operations that are necessary. Thus the bricklayer must have his hod-carrier; the driver of the steam-engine must have his fireman; the printing-office must have its errand-boys, technically called "devils." Commerce demands a higher average of skill and intelligence from those who are engaged in it than any other of the great branches of industry; yet even here, in the various operations subsidiary to the transportation and exchange of goods, there is a considerable demand for this lowest kind of exertion. We say a "demand" for it, because the fact, that laborers of this class expect only the lowest rate of wages, causes them to be sought for in preference to all others, when the work is such that they can perform it.

From various causes, there is an abundance of this kind of labor in the market in almost every country. The stinted bounty of nature; casualties that lessen the average capacity; vice, ignorance, and extreme poverty; are among the causes which here keep the supply up to the demand, and, in nearly all cases, make it go greatly beyond the demand. The only evil to be dreaded is a superfluity of this class of laborers, — a superfluity which sometimes, as at present in Great Britain and Ireland, exists to a frightful extent. Popular education, as that phrase is commonly understood, meaning the general cultivation of the intellect, though unquestionably a very powerful agent for lessening this evil, is not the only preservative against it. A man wholly uneducated in the common meaning of the word, that is, unable either to write or read, may yet become a very expert workman in the finest and most difficult kinds of manufacture. On the other hand, men

may be quite well taught, and still be unable to get any but the rudest sort of work to do, or to obtain employment more than half the time even at that. The Scotch, for instance, are a very well educated people; the standard of instruction among them, *for all classes,* is probably quite as high as it is in New England. Yet there is as large a surplus of rude labor in Scotland, in proportion to its population, as in England, — probably larger.

The loss which a country suffers by having a large portion of its people condemned to this rude labor, when most of them are capable, or might be made capable, of much finer work or more effective industry, is very great; so great, indeed, that I doubt whether any other single cause of national poverty can equal it. Men are differently constituted by nature, or by those circumstances which, in early youth, determine the bent of their inclinations and the applicability of their powers to one task rather than another. The labor of a people is effectually used only when the field of employment in the country offers scope for every variety of taste and talent, and when no formidable or insuperable obstacles prevent any individual from finding out and performing just that task which God and nature appointed him to do. If agriculture alone is pursued, all the mechanical skill of the people is wasted, — all their fitness for commerce, all their enterprise in trade, is wasted. If four millions are obliged to be rude laborers, when three millions of them might be skilled artisans, the labor of one of the latter being supposed to be equal in value to that of at least three of the former, then the value actually created is to the value which might be created as four is to ten; in other words, the yearly product of the national industry might be two and a half times greater than it is; and the yearly unproductive consumption need not be at all increased, since, in either case, there would be four millions of people to be supplied with food, clothing, and shelter. Of course, — and here comes the application of the principle to present circumstances, — the country could afford to pay a higher price for their manufactures, for the sake of having the articles manufactured at home. They could afford to spend more, for they would have more to spend.

For illustration, we will take the two extreme cases of Ireland and Massachusetts. According to the Irish census of 1841, the whole number of *families* in Ireland was one million and a half, of whom

one million, or just two thirds of the whole, were engaged in agriculture; and only three hundred and fifty thousand families, or a little less than one fourth of the whole, were employed in manufactures and trade. It is obvious that the agricultural population was excessive; for in England, where agriculture is carried to greater perfection than in any other country on the face of the globe, there was but one agricultural family to every thirty-four acres of arable land, while in Ireland there was one such family to every fourteen acres. In Massachusetts, according to the State census of 1865, out of 218,600 men engaged in the various branches of industry, about 150,000, or 69 per cent, were employed in manufactures and the mechanic arts, and only 68,600, or somewhat over 31 per cent, in agriculture and its subsidiary employments. The proportions in Ireland, as we have seen, were about 23 per cent in commerce and manufactures, and 66 per cent in agriculture.

Now contrast the condition of the people in the two countries. The paupers in Massachusetts are about one in fifty of the whole population; but as nearly half of these are recent English or Irish immigrants, principally Irish, the real proportion is about one in a hundred. In Ireland, the paupers who received relief in the workhouses during the year 1866, added to the number of out-door poor who were assisted at the public charge, were 270,173, or nearly five per cent of the total population. In 1851, the number of paupers was nearly thrice as great. The cost of relieving these 270,173 paupers was over three millions of dollars.

Can we attribute this frightful difference to the unequal distribution of the bounty of Providence, — to the fact that the Irish are crowded together on land not broad or fertile enough to supply them all with food, while Massachusetts abounds with the spontaneous riches of the earth? According to the estimate already formed of the effect upon national well-being of what are termed "natural advantages," this is not very likely to be the case; but let us look at the facts. Here, where our only natural exports are ice and granite, it is notorious that we do not raise food enough for our own consumption. We import nearly all our wheat, the chief article of our breadstuffs, and also buy from the other States large droves of cattle. But Ireland raises more food than is necessary for her sustenance, and exports annually vast quantities of provisions to England. Her export of the cereal grains,

chiefly oats, and of other edible products of the soil, increased, from less than seven millions of bushels in 1817, to twenty-six millions of bushels in 1845. Even in 1847, the year of famine in Ireland, nearly eight millions of bushels of grain and meal were exported; and in the following year, which was one of great scarcity, these exports rose again to sixteen millions. It is certain, then, that the penuriousness of nature is not the source of the difficulty; it is not fertile land which is wanting, but wealth; and the people do not produce *that*, because the field of employment is so limited that very little except rude labor is possible. There is no opening for the exertion of skill and enterprise, and whatever natural qualifications the people may possess in these respects cannot be developed.

Nearly the whole native population of Massachusetts being occupied with tasks that require skill, care, and ingenuity, we depend for a supply of rude labor almost exclusively upon immigrant foreigners. These do all the coarse work in building our railways and canals, and in the several other occupations that require nothing but muscular strength. Because our own people are so generally trained to the finer and more productive branches of industry, new expedients are constantly invented by them for performing the drudgery by machines. The locomotive steam excavators, that are often employed on the line of a proposed railroad, and the various contrivances that have been patented for cutting and hoisting ice on our ponds, are instances of this sort of labor-saving machinery. The superfluity and consequent cheapness of rude labor in foreign countries render these expedients unnecessary, and the work is profitably done by hand.

Consider the rapid growth of capital in this State, which is the result of this most effective application of its industry, and also the immense unproductive consumption of the people, — their ample supply, not only of the necessaries, but of the comforts and luxuries of life; and contrast these with the poverty and destitution of Ireland. The productive part of the consumption leads to the increase of the national wealth; the unproductive part is an index of the general well-being of the community. In Ireland, the people are literally too poor to create a demand for anything but potatoes; and the country therefore affords hardly any market either for British or Irish manufactures. There is but little open-

ing there for the mechanic arts, or for the many small occupations which are created by a due regard for the comforts and conveniences of life. The field of employment for skilled industry is consequently limited almost to a span, and the bulk of the people are driven back upon rude labor in agriculture, — to ditching, cutting turf, and planting potatoes; the meagre returns from such toil being hardly sufficient to keep them from starvation. The United States, on the other hand, afford a better market for manufactured goods than any other country of equal population on the globe; because the universal prosperity of the community enables them to consume more. If the relation of cause and effect in this proposition be reversed, so as to say that the people consume more because they produce more, it will amount to the same thing, and be equally favorable for the purposes of the argument. More wealth is creted, more is consumed, and the amount of enjoyment is thereby increased.

Ireland has acted upon this rule, laid down by most political economists, — always to buy in the cheapest market, whatever may be the effect upon domestic enterprise. Grain and other provision can be raised most cheaply in Ireland, owing to the low rate of wages there; manufactures can be produced to best advantage in England, owing to the abundance of English capital. Ireland, therefore, raises food to buy English manufactures with; and the present condition of the Irish people is the consequence. They have the advantage, it is true, of the offer of the manufactured goods at prices twenty or twenty-five per cent less than what they command in America; — an advantage which would be more sensibly felt if the Irish were not too poor to purchase them at any price.

The proposition, I think, can be laid down as a general one, that a country, the population of which is chiefly or altogether devoted to agriculture, cannot become wealthy, whatever may be the fertility of its soil or the favorableness of its situation. Of course, its inhabitants must buy manufactures with food; that is, they must exchange the products of rude labor for the products of skilled labor; that is, again, they must give the labor of three persons for the labor of one person. The general principle of economical science is, to cause the industry of a country to take that direction in which it can be applied to the greatest advantage.

Now the fertility of the soil is one advantage, and the capacity of the people for the higher departments of labor, their skill and enterprise, is another. There is no reason for allowing either of these advantages to remain latent or unworked; and in choosing between them, we are to be decided by their comparative amount and importance. Fortunate as this country is in the extent of its territory and the richness of its soil, this advantage is as nothing, — nay, it would turn out to our positive detriment, — if, in consideration of it, we should sacrifice the talents and the energies of our people; — if we should doom our whole population to the rude labor of turning up the earth, for the sake of the trifling advantage of purchasing our manufactured goods at a little lower price.

The great mistake of Ricardo and his followers, who have done so much to reduce Political Economy to a mere deductive science, all the conclusions in which are obtained by abstract reasoning from a few arbitrarily assumed premises, is, that they generally treat of labor *in the abstract*, and make no allowance for these differences in the *quality* of the labor. This error vitiates most of the doctrines of this school respecting the nature of Value, and the distribution of the Value created into the three elements of Rent, Profits, and Wages.

Even Adam Smith remarks, that "a small quantity of manufactured produce purchases a great quantity of rude produce. A trading and manufacturing country, therefore, naturally purchases, with a small part of its manufactured produce, a great part of the rude produce of other countries; while, on the contrary, a country without trade and manufactures is generally obliged to purchase, at the expense of a great part of its rude produce, a very small part of the manufactured produce of other countries."

One mode in which the encouragement of skilled labor, leading to the interfusion of manufactures and commerce with agriculture, favors the increase of national capital, is, by concentrating the population in cities and towns. Agriculture is necessarily diffusive in its effects; the laborers must be distributed over the whole face of the territory which they cultivate. A few large cities spring up at great distances from each other, as an outlet for the commerce created by the exchange of the surplus agricultural products for manufactured goods and other necessaries brought from abroad. The great agricultural districts of Continental Europe, the wheat-

plains of Poland and Southern Russia, find an outlet at the cities of Dantzic and Odessa; and we may remark in passing, that the poverty and general low condition of the inhabitants of these districts show the effects of confining a whole population to the rude labor of tilling the ground. It may be that, from their low capacity, and their want of education and general intelligence, they are incapable of anything better. If so, the fact only strengthens our argument; wherever the capacity exists, if it be not developed, if a field of employment be not offered to it, the same results must follow. Manufactures and commerce, on the other hand, requiring a great division of labor, and also that the participators in the work should be near each other, necessarily create a civic population. They will flourish only in cities and towns, and they are the only means of creating cities and towns.

This principle, perhaps sufficiently obvious in itself, is strikingly illustrated by the differences among the States of this Union. Our Southern and Southwestern States are almost exclusively agricultural; and south of the northern boundary of Virginia and Kentucky, there is but one city, New Orleans, of the first class, numbering over 160,000 inhabitants, and but three cities of the second class, Richmond, Charleston, and Louisville, each numbering over 35,000. These cities, of course, have sprung up from the same causes which sustain Dantzic and Odessa; — they afford an outlet for the surplus produce of the vast agricultural districts which depend upon them; manufactures have hardly contributed at all to their growth. If we reckon as civic population those only who dwell in cities or towns having at least 12,000 inhabitants each, Massachusetts and Rhode Island, two manufacturing States, with an aggregate population of only 1,405,686, have nearly as large a civic population as these ten agricultural States, who number in the aggregate about ten millions. The cities in Massachusetts and Rhode Island have been created almost entirely by manufacturing enterprise, these States not having any surplus agricultural produce. They are the two most densely populated States in the Union. Wherever there is a considerable fall of water, affording power to move machinery, there a new city springs up, though the soil in the neighborhood should be as barren as the Desert of Sahara. But, under the demand for agricultural produce created by that city, the dry sand and the hard rock are

converted into gardens of fruit and vegetables; while the plain of Eastern Virginia, once almost unsurpassed for fertility, its powers being now exhausted, is relapsing in part into its primitive wild condition.

Cities and towns are the great agents and tokens of the increase of national opulence and the progress of civilization. The revival of effective industry, which preceded, and in part caused, the revival of learning in Europe, took place through the agency of the free towns and great trading-cities, which sprang up most numerously in Germany and Italy, where they afforded a refuge for the arts and the pursuits of peace. Their establishment was the first effective blow given to the feudal institutions of the Continent. Commerce and manufactures, to which their walls afforded protection against the chances of war and the rapacity of the warlike nobles, "gradually introduced order and good government, and with them the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbors, and of servile dependency upon their superiors. By affording a great and ready market for the rude produce of the country, they gave encouragement to its cultivation and further improvement." The word *civilization* itself, as if to indicate the origin and home of the thing, is derived from *civis*, the inhabitant of a city. Sismondi attributes the greater humanizing and civilizing influence of the colonies of the ancients over those of the moderns to the fact that the former founded cities, while the latter spread themselves over much land. "In the town, man is in the presence of man, — not in solitude, abandoned to himself and his passions. The history of the colonization of the borders of the Mediterranean, he says, might also be called the history of the civilization of the human race.

The Egyptians, the Phœnicians, the Greeks, and the Romans successively formed colonies upon the same general plan. Each of these nations became in succession the leaders, the masters, of the civilized world in refinement, learning, and the arts; and the colonies which they established were the means of diffusing these blessings among the rude tribes within whose territories the new settlements were formed. When the mother country became too populous, when the inhabitants of its wall-enclosed cities became straitened for room, detachments of them were sent out to found new

homes for themselves on the coasts of other lands. The colony was to take care of itself, to be independent of the mother country, from the outset. Hence, to protect themselves against the savage tribes among whom they came to dwell, they were obliged, as the first step, to build a city and encircle it with fortifications. Within its walls they all slept; and they did not wander so far from its precincts during the daytime, but that they could at any hour hear the trumpet-call, which, like the alarm-bell of modern times, might summon them back to the defence of the walls. Hence they cultivated only a narrow territory, lying within sight of, or at a short distance from, the city; and to obtain food from this restricted space for their whole number, they were obliged to exhaust all the arts of cultivation upon it: it was tilled, and it bloomed, like a garden. For greater security, a portion of it was generally enclosed within the fortifications. This *pomœrium*, or cultivated space under the walls, was usually divided into small strips, and allotted to the several heads of families among the citizens. A portion of the colonists devoted themselves to tillage, and raised food enough, or nearly enough, for the whole city. A larger portion within the walls applied themselves to the mechanic arts and to commerce, exchanging their manufactured goods for food, either with their own agricultural citizens, or with the native inhabitants of the soil, when they could open peaceful intercourse with them, or with the denizens of other shores, perhaps of the mother country, to which they sent their ships.

As they needed only a narrow strip of territory, which they often obtained by fair purchase from the aborigines, the hostility of the latter was not excited; and the mutual benefits of trade being soon felt, the natives came to regard the colonists as their benefactors and best friends. A knowledge of the arts, a taste for the comforts and luxuries of life, learning and religion, were thus diffused among them; and in their simplicity and gratitude, they often reverenced the authors of their civilization as superhuman beings, and paid them divine honors. Many, if not most, of the gods and goddesses of ancient mythology were originally only the founders of art-bringing, knowledge-and-religion-diffusing colonies, whose beneficent influence, handed down to grateful remembrance by tradition, really seemed to admiring posterity divine. The colony, the city, was opulent and refined from the beginning;

founded by the most enterprising citizens of the mother country, who brought their wealth, their cultivated tastes, and their industrious and adventurous habits along with them, it became almost at once a rival of the parent city in learning, industry and the arts. Temples and theatres were built; the drama flourished; schools of eloquence were established; manufactures of costly and elegant fabrics were begun; and commerce started into life with all the vigor of youth and the large resources of manhood.

Brief as this sketch is, the classical reader will recognize in it, I think, the principal features of those colonies which the Phœnicians established along the northern shore of Africa, the Greeks along the coasts of Asia Minor, Sicily, and Magna Græcia or Southern Italy, and the Romans in Gaul and Spain.* Carthage, the great commercial and manufacturing city of ancient times, the rival of Rome, may be taken in its history as a type of them all; and in the fanciful picture which, many years after its destruction, the Roman poet drew of its supposed origin, of the scene which it presented while the walls of the city were building, we recognize what was the idea, even so late as Virgil's time, of the mode of founding a colony.

Modern colonies, on the other hand, are, from the outset, dependencies of the mother country, to which they constantly look for protection and support. They are often planted by those who

* "Their progress," says Mr. Grote, speaking of the Grecian colonies in Sicily, "was very great, and appears greater from being concentrated, as it was, in and around a few cities. Individual spreading and separation of residence were rare, nor did they consist either with the security or the social feelings of a Grecian colonist. The city to which he belonged was the central point of his existence, where the produce which he raised was brought home to be stored or sold, and where alone his active life, political, domestic, religious, recreative, etc., was carried on. There were dispersed throughout the territory of the city small fortified places and garrisons, serving as temporary protection to the cultivators in case of sudden inroad; but there was no permanent residence for the free citizen except the town itself. This was, perhaps, even more the case in a colonial settlement where everything began and spread from one central point, than in Attica, where the separate villages had once nourished a population politically independent. It was in the town, therefore, that the aggregate increase of the colony palpably concentrated itself, — property as well as population, — private comfort and luxury not less than public force and grandeur. Such growth and improvement was of course sustained by the cultivation of the territory, but the evidences of it were manifested in the town; and the large population which we shall have occasion to notice as belonging to Agrigentum, Sybaris, and other cities, will illustrate this position." (Vol. III. p. 368. Am. ed.)

do not intend to reside there permanently, but simply wish to gather again in a new country the wealth which they have dissipated in an old one, and then to return to their former home in order to enjoy it. Thus, relieved from all fear of attack from the aborigines, their first care is to get possession of as much land as possible, this being the most obvious and plentiful source of riches. Individuals or joint-stock companies obtain grants of land measured by the league; and their rapacity provokes the vengeance of the natives, at the same time that it leads to their own isolation and defencelessness. The territory which they acquire is out of all proportion to their wants, their physical strength, or their capital; they cultivate only here and there a very fertile spot, where the powers of the soil are soon spent by a succession of exhausting crops; and in the careless style of agriculture to which they become accustomed, through their dependence on the extent and natural richness of their land, is soon lost all remembrance of the agricultural art and science which they brought with them from their old home. Widely separated from each other, amply supplied with food by the bounty of nature, but destitute of the manufactured articles on which depend the comforts and even the decencies of life, out of the reach of the law, and beyond the sphere of education, they rapidly approximate the condition of the savages whom they have just dispossessed. They become "squatters," "bushmen," "backwoodsmen," whose only enjoyments are hunting and intoxication, whose only school-room is the forest, and whose sense of justice is manifested only in the processes of Lynch-law. They are doomed to the solitary, violent, brutal existence which destroys all true civilization, all sympathy with other men, though it increases strength of body, adroitness, courage, and the spirit of adventure. The want of local attachments, and an insatiable thirst for wandering and adventure, are, I fear, the most striking traits in the character of the whole population of our Mississippi valley. The truant disposition which carried them over the Alleghanies hurries them onward to the Rocky Mountains. I do not fear that these constant migrations should lead our countrymen back to barbarism; but it is certain that the "pioneers of civilization," as they have been fondly called, leave laws, education, and the arts, all the essential elements of civilization, behind them. They may be the means of partially

civilizing others, but they are in great danger of brutalizing themselves.

Strangely enough, the only colony of modern times founded on the principles which governed the ancients in the establishment of their colonies is one commenced by a set of half-crazed fanatics in our own far-distant territory of Utah. Here, as well as at their former place of settlement in Illinois, the Mormons appear to have begun their colony by founding a city, within or near which their whole population is to be collected, so that the mechanic arts and all branches of manufacture may be established at the same time that they make their first attempts in agriculture. The name of their present chief city is New Hierusalem, situated on the right bank of the Western Jordan, which empties into their Dead Sea.

"Its houses are spread," says Mr. Kane, "to command as much as possible the farms, which are laid out in wards or cantons, with a common fence to each ward. The farms in wheat already cover a space greater than the District of Columbia, over all of which they have completed the canals and other arrangements for bountiful irrigation, after the manner of the cultivators of the East. The houses are distributed over an area nearly as large as the city of New York. They will soon have completed a large common storehouse and granary, and a great-sized public bath-house. One of the many wonderful thermal springs of the valley, a white sulphur-water of the temperature of 102° Fahrenheit, with a head of 'the thickness of a man's body,' they have already brought into the town for this purpose."

It is remarkable, that one of the latest improvements or discoveries in economical science, Mr. Wakefield's theory of colonization, consists in the recognition of the fact that the ancient mode of planting colonies is far preferable to the modern one. Mr. Wakefield perceived that a country cannot have a profitable agriculture unless it has a large town population, who may supply the agriculturists with manufactured articles, while the agriculturists supply them with food. Both parties are thus furnished with a market for their surplus produce, and with the articles that they most need in exchange for it. He showed that the modern fashion of establishing new settlements, — "setting down a number of families side by side, each on its own piece of land,

and all employing themselves in exactly the same manner, — though, under favorable circumstances, it may assure to those families a rude abundance of mere necessaries, can never be other than unfavorable to great production or rapid growth." The situation of Oregon hardly ten years ago affords a striking illustration of this truth: the settlers, for want of a market, were obliged to feed their horses with the finest wheat, while their own dwellings were nearly destitute of all the comforts of life. Wakefield's "system consists of arrangements for securing that every colony shall have, from the first, a town population bearing due proportion to its agricultural, and that the cultivators of the soil shall not be so widely scattered as to be deprived by distance of the benefit of that town population as a market for their produce." When land was plenty and free immigrants scarce in New Holland, the government found it convenient to make liberal gifts of territory; and accordingly, tracts varying in size from 10,000 to 50,000 acres were granted to various individuals.

Mr. Wakefield, says one of his reviewers, argued thus: "The welfare of any community depends very much upon such a division of labor as shall fill every trade, profession, and employment with good men, and not overload any of them. If land in any country is so cheap that all are able to become landholders, there will be no laborers, no farm-hands, or mechanics; a semi-barbarism will follow; no growth in wealth or civilization will take place, and the country will be stationary or retrograde. If, therefore, you would have a colony progressive and civilized, you must put your lands so high as to keep a proper proportion of the inhabitants in the labor-market seeking employment, and yet not so high as to prevent as many from buying real estate as can use it to advantage with the help of such laborers. If, then, England wishes Australia to grow in riches and goodness, let her sell the lands at a fixed price, never taking less, and in fixed quantities, never selling less; and let her apply the revenue arising from these sales to the transportation of free, honest laborers to the points where they are needed. In this way, the labor market of New Holland will be supplied; the expense of supplying working hands will be paid by the lands of the colony; no more land will be taken up than can be worked to advantage; population will be concentrated; wealth will accumulate, and knowledge and virtue advance."

Mr. Wakefield's theory was good, but a practical difficulty obstructed its application. The government, adopting his views, put their lands up to a high price; and the immigrants, consequently, instead of purchasing them, or of remaining as laborers on the lands purchased by others, pushed farther into the interior, and "squatted" on the best land they could find, without paying anything. In those vast unsettled regions, they knew very well that they were out of reach of the sheriff. Thus, the very measures adopted for concentrating them, and keeping them within the range of civilization and law, led to their wider dispersion and utter lawlessness.

It is curious that the United States system of disposing of the public lands, adopted in all its essential features as far back as 1800, has worked better than any other plan which has yet been devised. The land is carefully divided by the government surveys into townships six miles square, each of these being subdivided into thirty-six *sections*, of one square mile, or 640 acres, each. All is held at a minimum price of $ 1.25 an acre; and the sales are made at public auction, as rapidly as the progress of the population seems to require. Lands which will not bring $ 1.25 an acre at the public sale are still held by the government subject to entry at any future time, at private sale and at the minimum price. Any person can select a quarter, or even an eighth section, — 160 or 80 acres, — wherever he can find one surveyed and not yet sold, and, by making a record of his intention to occupy and settle it himself, he can secure what is called the "pre-emption right"; — that is, a privilege of purchasing that land at the minimum price of $ 1.25 an acre, whenever the government shall think proper to sell it, which it will do when the settlement is so far advanced as to render it probable that most of the land in the vicinity will bring that price. Thus the actual settler in truth obtains his land on credit, though all actual sales are for cash. He has credit till the actual sale is ordered; and some years may intervene, during which he may proceed to clear and cultivate his land, and actually obtain enough from it to make up its price, — secure that no one will overbid him, and that he cannot be obliged to pay more than $ 1.25 an acre for it, however great may be his improvements. Five per cent is reserved from the proceeds of the sales, to be expended, three fifths for making roads in the newly settled

territory, and two fifths for the support of schools and colleges therein.

In still another way the sale of the public lands is made to help in opening new means of communication between the different portions of recently settled territory, and in giving the people access to distant markets. By special statutes, companies constructing new railroads often receive a free gift of one half of the sections of land, taken alternately, that border upon the line of the proposed road; and as these sections command a much enhanced price on account of their nearness to the new artery of travel and traffic, the sale of them usually defrays in great part the cost of building the railroad. At the same time, this gift costs the government nothing, for the price of the alternate sections which are reserved is then doubled, and they are quickly sold at this advanced rate, for the new road has more than doubled their value.

I say this system has worked well, the only evil experienced under it being, that speculators will sometimes buy up large tracts not subject to pre-emption right, at the minimum government price, and hold them for an indefinite period, hoping that, as the population gradually closes up and concentrates around them, they may again be brought into market at a much advanced price. While thus held, they remain unoccupied, — broad patches of wilderness among the settlements, — obstructing communication between the surrounding lands, and barring out occupation and improvement. But there is a check to this evil in the fact that such lands are subject to State taxation, though they are tax-free before they are sold by the United States; and the taxes being proportioned to the rise in value of the property, it is not for the interest of the speculators to retain the land a long time.

But the inhabitants of the Western States make a great mistake when they clamor for a reduction of the *minimum* price at which the public lands are now held, and even demand that they shall be offered, in limited quantities, as a free gift to actual settlers. Their object, of course, in making these demands, is to stimulate the spirit of emigration to the West, so that the population there may more speedily become dense, and the value of the lands already settled thus be enhanced. The object is a good one; but if there is any force in the considerations now adduced, the means adopted will rather check than promote its attainment. It

is surely not for the interest of sparsely settled States, like Indiana, Illinois, and Michigan, that the great wave of emigration, though broadened and deepened, should only roll over them, to be arrested at last by the farthest limits of Iowa and Minnesota, or perhaps to pass much farther. Any great reduction in the price of the public lands will surely have this effect. The most eligible land in the three States first mentioned has already been taken up by individuals, that portion which yet remains in the hands of government being either less fertile, or more distant from navigable streams and other means of communication, or situated in a less salubrious or convenient region, than the tracts first selected for purchase. They have long been in the market, and have not yet found a buyer. Even now, most of the emigrants pass by them, seeking public lands which are more remote from their former homes. Any general reduction of the government price could not affect this relative eligibility of the nearer and more distant lands. Reduce the price to nothing, — give away the lands altogether, — and the emigrant will still pass on, pushed forward by his fond illusion, that the farther from home, the nearer to El Dorado.

Again, what is most needed for an increase of the prosperity of the West — of that portion of it, at least, which lies near the Mississippi — is, not that the lands yet in the possession of government should become private property, but that the population should be concentrated on the tracts already owned by individuals, though in great part still covered by the primeval forest. To enhance the value of these broad regions, the people must be massed together, towns and cities must be established, manufacturing and commercial industry must be added to agricultural, and the hut of the backwoodsman give place to the well-furnished abode of civilized man. It is an ill mode of enhancing the value of the farms of individuals, to offer lands in their immediate vicinity at a nominal price, or at no price at all. The passion for owning land, which converts nearly all the new settlers in our Western States into farmers, however ill-fitted for such occupation by their previous pursuits, is as injurious to agriculture as to the other great branches of industry. The land is held by those who, from defect of experience or want of capital, are unable to develop its resources, or even to remove the forest from a tithe of their domains. Corn, fuel, and meat are abundant, because prodigal na-

ture affords so many facilities for the production of them, that the skill, enterprise, and knowledge of the cultivator are little needed, and are therefore imperfectly called forth. But man does not live by bread alone; and when this alone is supplied, almost without labor and without stint, he learns to do without many of the requisites even of a low stage of civilization, and allows the wants of his higher nature to remain unsatisfied. The want of a market, and the consequent surplus of agricultural produce, reduce its price so low that many families find it useless to raise more than is wanted for their own consumption.

Again, the agriculturist has usually but one or two staple articles — perhaps wheat alone, or cotton alone, or hemp alone — which he can send to a distance and sell to foreigners. These alone are capable of transportation to a distance. But his farm cannot usually be worked to advantage unless he has a market in his immediate neighborhood, at which he can dispose of his green crops, market vegetables, butcher's-meat, and other articles, which must be sold on the spot, or not at all. He needs this neighboring market, also in order that he may purchase conveniently, and at the lowest price, his ploughs, spades, carts, and other farming-tools. How is he benefited, then, — though we were to grant that he could exchange his wheat for cloth to better advantage by trading with foreigners than with his own countrymen, if he should thereby prevent a manufacturing market town from springing up within a few miles of his farm, and thus altogether lose the sale of many of his products, and be compelled to purchase his tools at a much higher price, or be put to great inconvenience in obtaining them on any terms?

The difficulty is felt, though its true cause is not ascertained; and a general call is made for improving the means of communication, so as to give access to distant markets, when the real want is that of a market near home. The State too often bankrupts itself in the gigantic enterprise of creating a system of railroads and canals, so as to gain access to a manufacturing and commercial population on the other side of the Alleghanies, instead of laboring to create such a population within its own territory. Indiana and Illinois, whose united territory measures about ninety thousand square miles, and whose inhabitants, in 1860, numbered over three millions, had but one city — Chicago — which contained

over one hundred thousand inhabitants, and but three others — Indianapolis, Peoria, and Quincy — having more than twelve thousand. Has it been a benefit to these States, that the cheapness of the public lands has recently borne the tide of emigration onward into Kansas and Nebraska, instead of its being arrested by the left bank of the Mississippi? In our opinion, the interests of these States, and of the emigrants themselves, would be most effectually promoted by raising the price of the public lands to a point which would really keep them out of the market for twenty years to come.

It is remarked by an intelligent English traveller, that "the wheat-exporting regions of North America have been gradually shifting their locality, and retiring inland and towards the West." During the middle and latter part of the last century, the banks of the Hudson and the Delaware, and the flats of the lower St. Lawrence, were the granary of America; the western part of New York, especially the Genesee country, succeeded these; then came Ohio and Canada West; and now, a large portion of the surplus wheat, destined for exportation to Europe, is drawn from Michigan, Wisconsin, Iowa, and Minnesota. The reasons for this change are to be found, partly in the migratory disposition of the people, and partly in their imperfect and exhausting processes of agriculture. The influx of population into the neighborhood causes the lands to rise so rapidly in value, that the deterioration of the soil, under too constant and exhausting crops, becomes comparatively of little moment. Little attention is therefore paid to manuring, or to establishing a due rotation of crops. Only the cheapest system of husbandry, and that productive of the quickest returns, without regard to the effects produced by such tillage in the long run upon the inherent fertility of the ground, can enable the farmer to maintain competition in the market with the supplies poured in from the newly opened wheat-regions farther west, where the land has been obtained at a nominal price, and its virgin powers seem inexhaustible.

Tired of a contest in which he is subject to a constantly increasing disadvantage, the New York farmer at last sells his farm, and himself migrates westward, secure of obtaining a larger and more fertile tract of land at a low cost. But in Kansas or Nebraska, he soon finds that he has only bartered one disadvantage for many.

The cost of transporting his wheat to market is now so great that the price on the ground hardly pays the expenses of cultivation. Labor is dear, and difficult to be had at any price, as few will work for wages when they can obtain farms for themselves at a nominal price and on long credit. The emigrants of a later day, instead of settling down and completing the half-formed village, push on and begin rival settlements farther still in the interior. Then competition begins anew, and the old contest with lessening prices and increasing expenses of cultivation must be renewed.

The great evil in the Old World, especially among commercial and manufacturing nations, arises from the undue concentration of the people in cities; the improvements in the implements and processes of agriculture requiring every year a smaller and smaller number of laborers for the tillage of the fields. In Western America, the difficulty is of just the opposite character; the population is thinly dispersed, cities are found only at great distances from each other, and the processes of agriculture, as well as of most of the arts of life, tend to deterioration rather than improvement.

CHAPTER VI.

THE INCREASE OF CAPITAL AS AFFECTED BY THE ADVANTAGES HELD OUT TO THE POSSESSORS OF WEALTH: INJURIOUS EFFECTS OF CASTE, OR THE FIXITY OF RANKS AND CLASSES.

THE next stimulus of labor and frugality which we have to consider is, the prospect that the savings when made, or the capital when accumulated, will be attended with a high rate of profit, and by a large proportion of physical comfort, social consideration, and political influence.

Necessity is the first and most effective spur to exertion. We have wants that *must* be satisfied: we must eat and drink, or we perish. But observe that labor or exertion tends only to the *production* of wealth, and that our natural desires urge us to consume the product just as soon as it is created. For the *accumulation* of capital, or the growth of national opulence, we must be willing, not

only to work, but to save. Now, the greatest of all encouragements to frugality is the sure prospect that our savings will contribute largely to our comfort, will elevate our position in society, and add to the estimation in which we are held in the community and to the power which we actually wield. No man will practise self-denial for nothing; take away the chance of using his accumulations to advantage, and every one, to use the popular phrase, will spend as he goes. It is not enough to prove to the laborer that what he does not spend to-day he will be able to spend to-morrow. There is some hazard, at least, that he may lose it before the morrow comes; and if an *equal amount* of enjoyment can be had with it *now*, he will be apt to secure that enjoyment as soon as possible. But when he sees that the enjoyment, if postponed, may be considerably increased, he will be anxious to save; and this anxiety will be greater in proportion to the probable rate of increase, and to the comforts and immunities which the use of the accumulation may bring. The greater the consideration and influence which attend the possession of wealth, the greater will be the temptation to amass wealth.

What has been called "the effective desire of accumulation," says Mr. Mill, "is of unequal strength, not only according to the varieties of individual character, but to the general state of society and civilization." "All circumstances, which increase the probability of the provision we make for futurity being enjoyed by ourselves or others, tend to give strength to the effective desire of accumulation. Thus, a healthy climate or occupation, by increasing the probability of life, has a tendency to add to this desire. When engaged in safe occupations, and living in healthy countries, men are much more apt to be frugal, than in unhealthy or hazardous occupations, and in climates pernicious to human life. Sailors and soldiers are prodigals. In the West Indies, New Orleans, the East Indies, the expenditure of the inhabitants is profuse. War and pestilence have always waste and luxury among the evils that follow in their train."

Improvidence may also proceed from intellectual as well as moral causes. "Individuals and communities of a very low state of intelligence," says Mr. Mill, "are always improvident. A certain measure of intellectual development seems necessary to enable absent things, and especially, things future, to act with any force

on the imagination and will. The effect of want of interest in others in diminishing accumulation will be admitted, if we consider how much saving at present takes place which has for its object the interest of others rather than of ourselves; — the education of children, their advancement in life, the future interests of other personal connections, the desire of promoting, by the bestowal of money or time, objects of public or private usefulness. If mankind generally were in the state of mind to which some approach was seen in the declining period of the Roman empire, — caring nothing for their heirs, as well as nothing for their friends, the public, or any object which survived them, — they would seldom deny themselves any indulgence for the sake of saving, beyond what was necessary for their own future years; which they would place in life annuities, or some other form which would make its existence and their lives terminate together."

The various stages of civilization depend upon, or are the consequence of, the varying strength of this desire of accumulation. The remnants of Indian tribes which are found in villages upon the banks of the lower St. Lawrence are surrounded by circumstances which ought to secure to them all the comforts of life, and which would enable others to amass wealth. They have abundance of fertile land, already cleared from the forest, and manure in heaps lies beside their huts. Yet such are their apathy and improvidence that they often suffer extreme want; and from the privations thus endured, with occasional intemperance, their number is rapidly diminishing. Yet their apathy does not arise from aversion to labor; for they are industrious enough when the reward of toil is immediate. They are successful in hunting and fishing, and they work with ardor when employed as boatmen on the St. Lawrence. They will even till the ground, if the returns from such labor are speedy and large; they will raise Indian corn, which grows and ripens quickly in Canada, and yields perhaps a hundred-fold. But they have not foresight enough to fence their fields, and hence, when the situation is exposed to the incursions of cattle, the culture is abandoned.

Nearly as low, in respect to foresight and prudence, are the emancipated negroes of Hayti and the British West Indies. In a tropical climate, where little clothing or shelter is needed, and

where the ground is so fertile that the labor of a few weeks will supply sustenance for a year, they are content to gain little more than the necessaries of a merely animal existence. The ease with which life is supported fosters indolence, feebleness, gayety, and *insouciance*; and even when the people pretend to labor, their work is scarcely worth paying for. "In the sugar-mills," we are told, "from twenty to thirty men and women are employed to do what five American operatives would do much better in the same time with the aid of such labor-saving agencies as would suggest themselves at once to an intelligent mind"; and "this is but one of the thousand ways in which labor is squandered on this island." The people might supply themselves with all the luxuries of the earth; but they are content to live in a swinish abundance of the grossest necessaries, — to be fat and shining, and to sing, chatter, and bask in the sun.

Again, accumulation is rapid when the rate of profits is large. If this rate is so high that the accumulated savings of a few years may be made to produce an income equal to that from which those savings were made, then the prospect of being released altogether from the necessity of labor will stimulate the habit of frugality to the utmost. The average rate of profits in this country is at least twice as large as in Great Britain; for the interest of money here averages over six per cent, while the English Government funds yield but three per cent, and the ordinary rate for short loans often falls below that point. But the rate of profits on capital considerably exceeds the rate of interest on money; for he who borrows capital undertakes the risk and care of employing it to advantage; and, of course, he who lends his capital, because unwilling to take that risk and care on himself, will not expect so high a rate for it as he might obtain by using it himself. When a great deal can be made by the use of money, a great deal will be given for the use of it; but still not so much but that something shall remain to compensate one for the skill and industry that are required to use it to advantage. The average rate of profits in this country may be estimated at twelve per cent a year, while the corresponding rate in England is but six per cent. In this country, then, by postponing the period of consumption or enjoyment for a little over six years, the amount of that enjoyment may be doubled. In England, in order to double the enjoyment, abstinence must be practised for twelve

years. It is obvious, then, that where there is the most need of capital, the temptation to accumulate it is strongest, — the rate of profits being high, — and its growth is most rapid.

In Holland, nearly two centuries ago, after a period of almost unequalled commercial prosperity, the rate of interest fell to about two per cent, the rate of profits suffered a corresponding reduction, and, as a necessary consequence, the growth of capital almost wholly ceased. Holland, in point of commercial and manufacturing enterprise, has been in a stationary, if not a declining state, for about two centuries. The springs of industry are not relaxed, for the people are still sober and laborious; but they lack the energy and the thirst for gain, which caused them, in the seventeenth century, to dot the surface of the globe all over with Dutch colonies. Few will practise abstinence and try to amass wealth when the rate of profit is but little over four per cent.

The rate of interest in England, in Henry VIII.'s time, was limited to ten per cent, which implies that it had been higher. Under James I. it was reduced to eight, and after the Restoration of the Stuarts, to six per cent. Forty years afterwards, it was again reduced to five, and a continuance of the same causes, as we have seen, has now brought it down to three per cent. But for the enlarged intercourse with foreign lands, which has tempted English capitalists of late years to embark their funds in enterprises abroad, — in Mexican mines, in Continental and American railroads, in Austrian and Russian funds, and in United States stocks, — it is probable that the interest of money and the profits of stock would, ere now, have sunk to that low point at which the desire to accumulate ceases altogether.

True, "there would be adequate motives for a certain amount of saving," as Mr. Mill remarks, "even if capital yielded no profit. There would be an inducement to lay by in good times a provision for bad; to reserve something for sickness and infirmity, or as a means of leisure and independence in the latter part of life, or a help to children in the outset of it. Savings, however, which have only these ends in view have not much tendency to increase the amount of capital already in existence. These motives only prompt each person to save at one period of life what he purposes to consume at another, or what will be consumed by his children before they can completely provide for themselves." "There are always

some persons in whom the effective desire of accumulation is above the average, and to whom less than the ordinary *minimum* rate of profit is a sufficient inducement to save; but these merely step into the place of others whose taste for expense and indulgence is beyond the average, and who, instead of saving, perhaps even dissipate what they have received."

The hope of elevating one's condition in the world tends more effectually to increase the national wealth in proportion as it affects a larger number of the people. In most civilized countries, the bulk of the population are poor, their daily wages hardly sufficing to buy their daily bread. Their savings, if it is possible for them to make any, must be in very small sums; and the inducement for them to be frugal must depend on the possibility of immediately investing such small sums to advantage. One of the great improvements of modern civilization consists in the means afforded, the machinery contrived, for collecting these driblets of wealth, and bringing them together into large reservoirs, whence they issue in abundant streams, giving efficiency and fertility to labor throughout the land. The water which falls in drops upon the desert sinks through the sand, and leaves the ground arid and barren as before; but when collected in great tanks and cisterns it turns some portion of that desert into a garden. A century or two ago, if the laboring part of the population made any savings, they were in the form of little hoards of silver or gold, hid in an old stocking, or buried in the garden. But because the money thus stored was unproductive, and yielded no interest, and because it was always at hand when the owner was for a moment tempted to some indulgence and consequent expense, the number and amount of such hoards were always small. Now, through the multiplication of the branches of retail trade and the lesser mechanic arts, and through joint-stock corporations and savings' banks, the first half-eagle which the laboring man or woman saves from the month's wages is profitably invested, and, by the end of the year, is increased by the twentieth part of itself. When this saving has reached a very moderate amount, it can be made to accumulate at compound interest, and thus to double itself in twelve years. In many cases, it soon comes to be used by the owner himself as capital; that is, it is invested in the purchase of tools or machinery, or a small stock in trade; and it may then

accumulate at the rate of ten or twelve per cent a year, — that is, it may double itself every six or seven years. The result is, that he who began life as a common laborer often drives about in his own carriage before its close.

In almost any other part of the world than New England, I should be afraid to give this sketch as an illustration of the manner in which the wealth or available capital of a nation is increased. But I presume it is a safe assertion, that at least one half of those who are usually called wealthy men, in Boston and its neighborhood, have obtained their wealth very nearly in the manner, or through the process, just described. This leads us to perceive that the aggregate of the small savings made by the bulk of the population, who have very small means, may constitute, and in this country actually does constitute, a larger annual addition to the whole amount of national capital, than the sum of the much larger savings made by the few who are usually considered as capitalists. The customs of society in England require the style and expensiveness of living to come much nearer to the individual's whole income than is usual in this country, so that most of the nobility and the landed gentry, who have the largest incomes, do not make any savings at all, and many even run in debt, or encroach upon their capital. A nobleman who inherits an estate of £ 20,000 a year, inherits also a style of living which is costly enough to consume it. In the United States, on the other hand, a man usually begins poor, and therefore with frugal habits, and consequently hardly knows what to do with the income of a large property when he has acquired it. He has no ancestral castle to maintain in due state, and no county to contest at each succeeding election. Nay, the custom of the country, the force of public opinion, is such, that he *cannot* make his personal expenditure equal to his income, even if he wished. He must not keep a carriage and four, nor have a footman to stand behind his more modest equipage, nor clothe his servants in livery, nor adopt many others of the badges by which some persons try to convince the world that they are people of consequence. We are accused of being fond of titles, it is true; but the epithets of Major, Colonel, and Honorable *cost nothing* but civility, and so do not help a man to spend his fortune. We do not tolerate gold lace, nor cocked hats, nor tall footmen with gold-headed canes.

We come now to the inquiry, Under what circumstances are the middle and lower classes able to save, and by what means is their inclination to frugality most effectually stimulated? I answer, that the most powerful means to this end is what may be called the *mobility* of society, or the ease and frequency with which the members of it change their respective social positions. The worst of all forms of civil polity is that which binds a man forever to the condition of life in which he was born, be it of high or low degree, however he may have merited removal from it by his character, acquisitions, and behavior. Fixity of ranks and classes, or the existence of immunities and distinctions which money and talent can neither procure nor remove, is a bar to the accumulation of wealth, — a bar the difficulty of overleaping which is proportioned to the importance and extent of those unpurchasable privileges. If they are numerous and of great moment, if they cover the whole ground both of political influence and social consideration, what inducement is there for any one who is not born to the possession of them, either to labor or to save further than is required for the necessities of the present hour? Only after providing for these necessities does the accumulation of capital begin. And what inducement to accumulate is there for one who is born to the possession of them, since he already enjoys more than wealth can buy, and cannot forfeit *this* enjoyment even if he should lose his wealth? The great improvement in the industrial organization of society in modern times, whereby the increase of wealth in all civilized nations has been made so rapid and so great, has been the successive breaking down and removal of these fixed and arbitrary barriers and divisions, so as to leave the whole field of promotion open to the career of skill, industry, and economy. A brief notice of a few points in the politico-economical history of different nations will illustrate this statement.

"Both in ancient Egypt and Hindostan" — and to a great extent still in the latter of these two countries — "the whole body of the people was divided into different castes or tribes, each of which was confined, from father to son, to a particular employment or class of employments. The son of a priest was necessarily a priest; the son of a soldier, a soldier; the son of a laborer, a laborer; the son of a weaver, a weaver, etc. In both countries the caste of the priests held the highest rank, and that of the soldiers the next;

and in both countries the caste of the farmers and laborers was superior to the castes of the merchants and the manufacturers." Adam Smith adduces these facts to explain why agriculture flourished in those regions far more than any other employment. He might with greater propriety have cited them to explain the peculiar, immovable, statue-like character of Hindoo and Egyptian civilization. The massive granite sphinxes, half covered by the sands of the desert among which they have rested for more than three thousand years, with their enigmatical and almost superhuman expression of mingled sweetness and severity, — fit emblems of mystery, unchangeableness, and everlasting repose, — aptly typify the character and the institutions of the people who chiselled them. The bodies of this people are even now drawn from the tombs in which they have lain for thirty centuries, perfect in every limb and lineament, as if they resisted change even after death. And such was their condition during life: the idea of movement, alteration, or progress seems never to have occurred to them.

Institutions merely political, the will of a monarch or the decrees of a senate, could not retain society in this immovable state for ages. The power of religion was brought in, to render sacred the fetters which bound it, and to take away from the minds of the common people any desire to rupture them. How much influence superstition had in building up these divisions of castes, and preserving them from violation or decay, may be conjectured from the fact that the priests always formed the highest caste, and therefore profited most by this peculiar institution. Civilization thus embalmed and immured was safe both from progress and decay by internal causes. It might have remained to this day just as it was in the time of the Pharaohs, if invasion from abroad had not brought it to a violent death, — if the Romans and the Arabs had not successively made Egypt a prey to their thirst for foreign dominion.

Though the barriers of caste prevented the people, as individuals, from making any progress in wealth, their peculiar polity enabled the government to undertake and execute works which shame the magnificence and expensiveness of modern productions. What we now esteem the wonders of Egypt, her obelisks and pyramids, her excavations and temples, were strictly public works, performed at royal or priestly command by the multitude, who

worked without pay, because labor was the function of their caste, and the part which they believed the gods designed to be their vocation. Wages and profits were words which in their ears had no meaning; all their time, all their labor, was due to the state, which was represented by the monarch and the priests. A portion of their time or of the products of their labor was granted back to them, which might, or might not, suffice for their subsistence. If savings were ever made, it was only with the intention of obtaining enlarged enjoyment from them at a future day, never for the purpose of aiding the individual's subsequent labors with a reserved fund, or of purchasing an easier or more elevated position with them. In the station of life in which each person was born, in that he was content to die. Of course, there was no accumulation of private wealth. Even the land belonged to the sovereign; all that was due to any person was a livelihood in the profession or caste to which he belonged, with that measure and kind of employment and comfort, of luxury or privation, which was allotted to every other member of the same caste. Immobility was the great characteristic of Hindoo and Egyptian civilization.

The freer spirit and quicker intellect of the Greeks, the pride and military ambition of the Romans, prevented these nations from sinking into apathy, or stagnating in castes. In the fierce democracy of Athens, the subtle politician and fluent declaimer often elbowed his way into the favor of his fellow-citizens, and consequently into offices of honor and profit. At Rome, a man of plebeian origin not unfrequently vanquished the pride of the patricians, and obtained the consulship, or the command of the armies of the republic. There was freedom, there was life, in a society thus constituted. There was a path open to effort, and a motive for the exercise of industry and self-denial. In the turbulent times which preceded and accompanied the fall of the republic, individuals often amassed large fortunes, and with these purchased the honors which they had not political sagacity, or military skill and courage, enough to obtain by more honorable means. One of the triumvirs who shared the empire of the world with Antony and Octavius owed his political power solely to his wealth. Both these nations might have made far greater progress in opulence if the institution of slavery, itself a caste, had not existed among them, and if the state, and the affairs of government, had

not monopolized ambition and effort to so great an extent that private enterprise, and the undertakings of individuals who did not avowedly look to the commonwealth for their reward, were discouraged or held in light esteem. Both at Athens and at Rome, the republic was everything and the individual was nothing; and, as a consequence, in the city proper, society was composed of two great castes, — the citizens, who were devoted to public affairs, and the slaves. The wealth of Rome was the wealth of the robber's den, obtained by plundering the rest of mankind. Even the populace of this great city were supported by gratuitous distributions of the corn which was levied as a tribute from the industry of the Sicilians and the Africans; and its patricians amassed their enormous fortunes from the plunder of the provinces which they had been appointed to govern.

With regard to slavery among the ancients, it has been acutely remarked by Sismondi, that because it was only an accident of the right of war, and not an industrial organization, it did not discredit labor in general. The slave was not a *mere* article of property, or a means, through his enforced toil, of increasing his master's wealth. He was rather a token of his owner's, or of the nation's, prowess in war. The possession of numerous slaves was more a matter of pride, a means of ostentation and magnificence, than a mode of investing capital with a view to profitable returns. Few of the slaves were distinguished by color, or any other physical peculiarity, which might serve as an ineffaceable mark of bondage or degradation. Hence, when manumitted, they at once took rank in society, and their children often rose to high honors in the state. As slaves, indeed, they were often put to servile and economical uses; but they were never treated as mere machines for the production of wealth. They did not perform all the labor, and therefore they did not discredit labor. They were a caste, and so did not accumulate property, either for themselves or others; but they were not a degraded caste; they were not considered vile, as were the Pariahs in India, or as African slaves are, in modern times.

"All the farms," says Varro, "are cultivated by freemen, or by slaves, or by a mixture of these two classes. Freemen till the ground, either by themselves, with the aid of their children, as the small proprietors do; or by free laborers hired by the day, in

the busy season, when they are making hay or collecting the grapes; or, finally, by those who are working out the payment of a debt. I speak of all farms in general, as it is more profitable to cultivate the unhealthy districts with hired laborers than with slaves; and even in the healthy localities, the great labors of the husbandmen, such as the collection of the fruits, the harvest, and the vintage, ought to be confided to free hired workmen, or mercenaries." Those who belonged to a caste, as the slaves did, and who, consequently, were not stimulated to labor by the hope of rising or the fear of falling in the world, could not be trusted with the most important work, even on a farm. Modern experience fully confirms this result, as no kind of cultivation is found to succeed if conducted by slaves, except that of tropical products, where the laborers can be employed in gangs.

After the fall of the Roman empire in the West, and the establishment of various tribes of barbarian conquerors upon its ruins, a great step was taken in social economy by the virtual emancipation of one large class in the community from the fetters of caste. I refer to the inhabitants of the Free Cities or towns, the foundation of which, in Germany, France, and Italy, was the first step towards the creation of the social polity of modern times. Their population, indeed, says Adam Smith, "consisted of a very different order of people from the first inhabitants of the ancient republics of Greece and Italy. They were chiefly tradesmen and mechanics, who seem in those days to have been of servile, or very nearly of servile, condition. They seem, indeed, to have been a very poor, mean set of people, who used to travel about with their goods from place to place, and from fair to fair, like the hawkers and pedlers of modern times." They were liable, while thus travelling about, to great exactions; they were either plundered without mercy by the arrogant and rapacious, or they paid heavy taxes and tolls as a price of protection. "Sometimes the king, sometimes a great lord, would grant to particular traders, especially to such as lived on their own lands, a general exemption from such taxes; and then, though in other respects nearly servile in their condition, they were called *free traders.*"

When thus chartered, they were allowed to give away their own daughters in marriage, their children were permitted to inherit their property, and they could dispose of their effects by will; in

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short, they were released from the most oppressive of the feudal burdens, to which, as of the lower class in society, they had previously been subject. "They were, generally, at the same time erected into a commonalty, or corporation, with the privilege of having magistrates and a town-council of their own, of making by-laws for their own government, of building walls for their defence, and of reducing all their inhabitants to military discipline by obliging them to watch and ward." The nobles despised the burghers, or citizens, whom they regarded as a parcel of emancipated slaves, devoted to base mechanic arts, and whose wealth excited their envy and indignation. The king, on the other hand, favored them, as a counterbalance to the power of the nobility, whom they hated and feared; and the weakest monarchs, consequently, were most liberal in their grants of privileges to the cities and towns. Thus the prosperous cities of France and the Low Countries, the famous Hanse towns of Germany, and the flourishing commercial republics of Italy and Switzerland came into being.

In the country, the distinctions of caste and the consequent limitations of employment still existed. The great barons lived remotely from each other, each on his own estate, surrounded by his retainers and serfs, whose only occupations were war and agriculture, and who had no hope of improving their condition. Exposed to every sort of violence, they naturally contented themselves with a bare subsistence; for to accumulate more would only excite the rapacity of their oppressors. If one of them did make some small savings, he hoarded them with care and secrecy, till he could find some opportunity of running away to a town, where, if he could conceal himself for a year, he was free forever. Thus a city often grew up to great wealth and splendor, while the country in its neighborhood was in poverty and wretchedness. The great lords themselves could obtain the articles of luxury which they desired only by bartering raw agricultural produce for them, at a great disadvantage, with the inhabitants of the towns. As the wealth and military strength of these municipal corporations increased, they could no longer be taxed but by their own consent; hence they were empowered to send delegates to parliament or the general assembly of the states of the kingdom, where, in connection with the clergy and the nobles, they granted extraordinary

aids to the king, and had a potential voice in managing the affairs of the nation.

These cities were not merely republican; they were essentially democratic, in their origin, their institutions, their social relations, and their tendencies; and my point is to show that this democratic character was the first cause of their rapid growth in opulence. Being originally servile, or nearly servile, in condition, the inhabitants had no distinctions of rank to begin with; their natural enemies were the nobles, from whose oppressive sway they were but recently emancipated. Trade and manufactures, being their only occupations, were necessarily held in high esteem among them; and he enjoyed their highest confidence and respect who had been most successful in these pursuits. A common interest and common perils bound them very firmly to each other; and the direction of affairs in their little state was naturally intrusted to those whose skill, prudence, industry, and economy had been already rewarded with the largest accumulations of wealth. No one was ashamed of his craft; no one had anything to be proud of but his riches. A brewer and a tanner, a weaver and a goldsmith, sat side by side in the town-councils, or led the citizens to the defence of the walls, and even conducted them in armies to the field, where they often defeated the chivalry of France and Germany, and sometimes triumphed over their own monarchs. Van Artevelde of Ghent was a brewer; the Medici of Florence, though popes and kings were reckoned among their posterity, were at first only successful merchants. Wealth being thus the only passport to distinction, and all the avenues to it being in high repute, its possession was eagerly coveted, and the virtues of industry and frugality were practised to the farthest extent. With the growth and spread of opulence, and the calling forth of talent from the whole community through the absence of artificial distinctions, the rise and progress of literature and the fine arts were necessarily associated. Poetry, painting, sculpture, and architecture had their origin, in modern times, in the commercial republics of Pisa and Florence, and the free cities of Flanders.

Wealth passed freely from hand to hand. Feudalism was barred out by the city-walls; and the father's property, instead of being kept together for the aggrandizement of the family in the person of the oldest son, was distributed equally among the children. If

one or more of these were prodigal, careless, or indolent, they sank to that level whence the thrift of the father had raised them, and their places were filled by the more capable and industrious. These alternations of fortune, rapid and frequent, kept up in the community a thirst for gain, and kept down discontent and civil commotions. An aristocracy of wealth has this at least to recommend it, if wholly disconnected with an aristocracy of birth, — that by its fluctuations it rather encourages effort than represses it. While society stagnated among the feudal nobility and at the courts of feudal monarchs, it was galvanized into an almost preternatural activity within the precincts of the little civic republics of Italy, Germany, and the Low Countries. The proud nobles were compelled to seek aid of the fat and wealthy burghers, the painstaking artisans, whom they affected to despise. They obtained loans from them, for which they gave their lands in pawn, and even sold to them outright their castles and hereditary estates. Ennobled by the possession of these, the ambition of the citizens grew by what it fed on, and not infrequently, as in the case of the Medici at Florence, they became the ancestors of a line of kings.

This sketch of the causes affecting the growth of opulence in ancient and modern times is introduced principally for the purpose of illustrating the most remarkable difference in the social condition of Great Britain and the United States. The most striking thing in the aspect of American society is the constant strain of the faculties, with all classes, in the pursuit of wealth, — the restlessness, the feverish anxiety to get on, which English writers, at least, are apt to regard only as "the disagreeable symptoms of one of the phases of industrial progress." In whatever light it ought to be viewed, they are certainly mistaken in attributing it to our favorable position, with an abundance of fertile land, and with sources of opulence as yet fresh and unexhausted. Were such causes adequate to produce this particular effect, we should find society exhibiting the same characteristics wherever it is similarly situated, — in British America, for instance, in British Australia, and over a great portion of the South American continent. But it is not so; and we must therefore look for an explanation of the phenomenon to some cause which is peculiar to our own social state, — to some stimulus acting upon what political economists call "the effective desire of accumulation," which has full scope to operate here, while

it is repressed or much restricted in all other nations, — even in England, where the character of the population in other respects is so similar to our own.

I find such a peculiar cause in the evident fact that every individual here has the power to make savings, if he will, and almost as large as he will; and has the certainty that the savings when made, the wealth when accumulated, will immediately operate, in proportion to their amount, to raise the frugal person's position in life, — to give him, in fact, the only distinction that is recognized among us. Neither theoretically nor practically, in this country, is there any obstacle to any individual's becoming rich, if he will, and almost to any amount that he will; — no obstacle, I say, but what arises from the dispensations of Providence, from the unequal distribution of health, strength, and the faculties of mind. In other words, there are no obstacles but natural and inevitable ones; society interposes none, and none exist which society could remove. And ours is the only community on earth of which this can be said. Here there are no castes, and not even an approach to a division of society by castes. Our whole population is in that state which I have attempted to describe as the condition of the inhabitants of a free town in the Middle Ages. The property which is rapidly gained is often quite as rapidly spent, for the sake of that consideration and influence which the reputation of riches alone can give. Hence, wealth circulates among us almost as rapidly as the money which is its representative. A great fortune springs up, like the prophet's gourd, in a night, and is dissipated by some unforeseen accident on the morrow. Every one is made restless and anxious by this exposure to sudden change; but one great good comes of it, — that it keeps down permanent discontent, and stifles the jealousy that is usually nursed by social differences and inequalities of fortune. How is it possible, indeed, that the poor should be arrayed in hostility against the rich, when — to adopt a former illustration — the son of an Irish coachman becomes the governor of a State, and the grandson of a *milliomnaire* dies a pauper?

The effect of democratic institutions is to stimulate an energy and activity in the pursuit of wealth, which accomplish greater wonders than all the modern inventions of science, which actually generate enthusiasm of character, and are regarded by foreigners with surprise and distrust, as the tokens of some constitutional

disease in the body politic. Even the Irish immigrant here soon loses his careless, lazy, and turbulent disposition, and becomes as sober, prudent, industrious, and frugal as his neighbors. Nearly all the enormous fortunes that have been gathered in this country are the growth of a single lifetime, and therefore, even if they were more evenly distributed than they now are at the death of their founders, there would not be a smaller number of them in the succeeding generation. Consequently, they are regarded as the prizes of industry, economy, and enterprise; and the sight of them stimulates and sustains exertion, instead of chilling and repressing it, which is the effect produced by the fixedness, in certain families, of vast hereditary estates.

The aspect of society in England in this respect I will not say is the direct contrary of what it is here; for, with regard to a very large and influential class, it is just the same. The middle class — what on the Continent would be called the *bourgeoisie*, the merchants, the manufacturers, the small tradesmen, the master mechanics — are about as busy as we are here, in the pursuit of wealth; and their numbers and influence in the state gave occasion to Napoleon's sarcasm, that the English were a nation of shopkeepers. But the parallel between their condition and that of the free towns in the Middle Ages may be carried much farther; *outside of the city-walls there are the nobles and the serfs.* The effect of the activity of the commercial class upon the eye of the philosophical observer is qualified by the comparative repose — the stagnation, one can almost say — of the laboring poor and of the nobility and landed gentry. These two classes, the top and the bottom of English society, are true *castes*, for nothing short of a miracle can elevate or depress one who is born a member of either. The true movement, the life, of the community in Great Britain is among those who are engaged in commerce and manufactures: here are alternations of fortune, — not so frequent, perhaps, as in this country, but as sudden and as great. An Arkwright begins life as a barber, and ends it as a *millionnaire;* a Peel gives his days and his nights to cotton-spinning, and his son becomes prime-minister of England. But outside of this class there is stagnation and death. One half of the whole population is composed of laborers who subsist entirely upon wages, who cannot make savings if they would, for their whole earnings barely

suffice to keep soul and body together. Hopeless of rising, encouraged by no examples, among those who were born his equals, of elevation to a higher grade, the laborer has no ambition, no thought even, of changing his position in life. His condition is best described in the strong language of McCulloch, when he speaks of "the irretrievable helotism of the working classes of England." And the upper classes, the nobility and the gentry, occupy a sphere which is equally immovable. With estates locked up by entails and marriage settlements, so that they cannot squander them, with an inherited scale of expenditure proportionate to their rank and fortune, so that they cannot make savings from income, and with a measure of political influence and social consideration secured to them by the long-established habits and opinions of their countrymen, they form a *caste* almost as fixed as that of the Brahmins in India.

Great inequality in the distribution of wealth may operate either as a check or a spur to industry and frugality; it is not, then, in itself, to be deprecated. On the contrary, a perfectly uniform partition of the goods of this world, if it were possible, which it is not, would create universal torpor. Take away the fear of poverty and the hope of rising in the world, and no one would exert himself but for his own amusement. Add the power of a despot, to make such exertion compulsory, and we should have exactly that state of things which existed in Egypt and India, when the institution of castes as yet was unimpaired. If the whole population formed but one caste, from which they could neither sink nor rise by any fault or merit of their own, they would be no more inclined to labor than if they were divided into several castes. It is the *fixedness*, and not the *inequality*, of fortunes which is to be dreaded; it is the retention of them in the same families throughout many generations, which chills exertion and unnerves the right arm of toil. Wherever there is motion, there is life. Property cannot be rendered immovable, except by the effect of human institutions which are designed to counteract the laws of nature. In this instance, surely, if in no other, the political economist has a right to cry, *Laissez faire!* — let alone! and do not attempt to amend the ways of Providence! We do try to amend them when we attempt to enforce, or to render permanent, either equality or inequality. Laws of primogeniture and entail, the object of which is to insure

to certain families the possession of their wealth forever, are not a whit more unnatural and unjust in their operation, than would be the schemes of the philanthropic reformers, as they call themselves, who would fain reconstruct society on the basis of making the distribution of all property equal and unchangeable.

"The laws and conditions of the production of wealth," as Mr. Mill remarks, "partake of the character of physical truths. There is nothing optional or arbitrary in them. Whatever mankind produce must be produced in the modes and under the conditions imposed by the constitution of external things, and by the inherent properties of their own bodily and mental structure. Whether they like it or not, their production will be limited by the amount of their previous accumulation; and, that being given, it will be proportional to their energy, their skill, the perfection of their machinery, and their judicious use of the advantages of combined labor. Whether they like it or not, the unproductive expenditure of individuals will, to an equal extent, tend to impoverish the community, and only their productive expenditure will enrich it. The opinions or the wishes which may exist on these different matters do not control the things themselves."

Among such ultimate laws is the tendency to an unequal distribution of the wealth that is created by human labor. A law of natural justice, which is recognized by savages quite as much as by civilized nations, assigns the ownership of a useful article to him by whose skill and industry that article was created. The game that is caught, the implement of the chase that is manufactured, belongs, by the consent of all, to him by whom it is caught, or made. Nor is any alteration produced in this law because the successful person has so much strength, skill, and enterprise, that he can catch or manufacture two or three times as much as any other member of the tribe. The property is still recognized as his, for this simple reason, if for no other, — that he would not put forth his force and ingenuity if others should deprive him of their fruits. Again, if he chooses to hold these articles in reserve, instead of immediately consuming them; if he prefers a wigwam well stocked with implements of war and the chase, and a store of food for future use, to present indolence or the immediate gratification of his appetites, still his rights of ownership are respected. His prudence and economy, as much as his strength and skill, are allowed to re-

dound immediately to his own advantage. There is even a stronger reason for respecting his property in this case than in the former one; for the whole community profit by his savings: they operate to some extent as an insurance to them all against famine. There is now a stock of food or implements in the tribe, which, though not common property, may still operate for the benefit of all at some future day, when the chase happens to be unproductive, because the owner will sell them to others for their services, or for honors which it may be in their power to bestow.

In this simple instance, we can easily see how injurious it would be to the common welfare if the rights of property were not respected, and how surely such respect tends to an unequal distribution of the fruits of industry and frugality. As men are differently endowed by nature with faculties of mind and body, with indolence or energy, with improvidence or thrift, so their situations in life must differ. And it is the true policy of society to encourage the more valuable qualities; — not to dishearten frugality by depriving it of its savings, nor to foster idleness by feeding it with the fruits obtained by the persevering toil of others. In civilized society, the same principles hold. The case becomes a little more complicated, because, by the transmutations of capital that have already been explained, the property of an individual is constantly assuming various shapes. But so long as it continues *productive* property, so long, in one form or another, must it further and assist the operations of labor; and so far must it benefit others as well as the owner. The general law, that industry is limited by capital, is borne out by the obvious consideration, that without implements, machinery, raw material, and a previously accumulated stock of food and clothing, the workman cannot bestow his labor to advantage, — cannot, in fact, work at all.

Even if it were granted that all the wealth of a nation *could* be distributed equally among all the people, and that the stock of it, by obliging all to labor alike, would forever remain equal to all their wants, — and no more improbable supposition could be framed, — it is certain that this would be no real improvement of their condition. "Those who have never known freedom from anxiety as to the means of subsistence," says J. S. Mill, "are apt to overrate what is gained for positive enjoyment by the mere absence of that uncertainty. The necessaries of life, when they have

always been secure for the whole of life, are scarcely more a subject of consciousness, or a source of happiness, than the elements. There is little attractive in a monotonous routine, without vicissitudes, but without excitement, — a life spent in the enforced observance of an external rule, and performance of a prescribed task; in which labor would be devoid of its chief sweetener, the thought that every effort tells perceptibly on the laborer's own interests or on those of some one with whom he identifies himself; in which no one could by his own exertions improve his condition, or that of the objects of his private affection; in which no one's way of life, occupations, or movements would depend on choice, but each would be the slave of all."

People are not aware, or do not sufficiently consider, that the sight of the two extremes of opulence and poverty — the hope of rising to the one or the fear of falling into the other — is the constant stimulus which keeps up that energy and activity of the human race, through which alone these goods are created. Make men secure of a provision for all their wants, take away from them all objects of ambition, destroy both anxiety and emulation, — and these are the certain results of an enforced equality of property and condition, — and, after a few years, even if there remained anything to be divided among them (which there would not be, for their wastefulness under such circumstances would equal their indolence), they would become useless and discontented drones, devoured by ennui, or eager for wrangling and fighting with each other, as the only means of relieving their otherwise stagnant existence.

CHAPTER VII.

STRIFE BETWEEN LABORERS AND CAPITALISTS: STRIKES AND TRADE-UNIONS: MEANS OF IMPROVING THE CONDITION OF THE LABORING CLASSES.

THE rate of wages in any country is determined by the competition of the laborers with the capitalists. Which shall have the advantage in the competition will depend on the relative numbers of the two parties, and will be in an inverse ratio to these numbers.

In England, certainly, the capitalists have the advantage: their immense accumulations, and the fewness of those who can compete with them, when compared with the vast number of those who subsist entirely upon wages, enable them generally to dictate their own terms, and to keep wages at the lowest point which will supply the workmen with the necessaries of life. In this country, the laborers have a considerable advantage; though in some respects they are not on equal terms with the capitalists, many of whom are now as wealthy as those of the same class in England. Most of the laborers for wages here have a little capital of their own, on which they could subsist for a time; or, owing to the great demand for labor, they can find work in other establishments, perhaps in other trades. Here, frequently, it is not the employer who discharges the workman or the domestic, but the workman or the domestic who discharges the employer.

Many kinds of production can be successfully kept up only upon a large scale; for the larger the enterprise, the farther the division of labor may be carried. In order to keep such enterprises in motion, capital must be aggregated in large masses. In England, the great inequality of the distribution of wealth allows such enterprises to be managed by individuals: in most cases, a large manufacturing establishment is owned either by one person, or by a firm which embraces but a few partners. In the United States, from what was, not many years ago, the comparative paucity of large private fortunes, such an establishment was generally formed and conducted by a joint-stock company, — which is comparatively a modern invention, but one that, from its democratic character, is peculiarly suited to this country and to the wants of the age. Many small capitalists, by clubbing their means, can successfully compete with men of vast fortune, — an undertaking which would otherwise be a hopeless one, as the great capitalist can live through reverses of trade, commercial crises, and casualties, which would ruin one who had little or nothing in reserve. So consonant are these joint-stock companies to the genius of our institutions and to the circumstances of the country, that they have multiplied with astonishing rapidity. They have survived even the necessity which called them forth; for, as large private fortunes have sprung up with the growth of national opulence, the owners of them have preferred to distribute their capital by taking stock in many of

these associations, rather than to concentrate it upon one undertaking. The risk of a sweeping calamity is thus materially diminished.

I know of nothing more irrational than the common prejudice against such corporations. They are true Savings' Banks, in which the common laborer not infrequently invests his modest savings, and shares the gains of his wealthy employer, instead of being crushed by competition with him. It is not unusual, I believe, for operatives to hold stock in the very manufactories in which they work for wages. At any rate, the Savings' Bank, to which they first confide the fruits of their economy, often invests them in such stock. These corporations allow persons of very moderate means to participate in enterprises which, in other countries, are conducted exclusively by the rich. The occasional failure of one of them does not bankrupt many of the stockholders, whose property invested in other ways is left untouched; and as this seems a hardship to the creditor who has lost a portion of his due, he is apt to declaim against those who are rich and still do not pay what they owe. But his accusation is unjust: he who allows such an institution to become indebted to him trusts it on account of the largeness of its capital, and its supposed solvency. If he prefers, he may trust an individual who is supposed to be worth only $50,000, instead of a corporation reckoned at ten times that sum. If he chooses the latter course, he trusts the corporation, not the stockholders; he deliberately prefers the joint-stock security to the security offered by individuals: and, consequently, has no reason to complain if the latter do not pay him.

During the last quarter of a century, joint-stock corporations consisting of operatives alone, and other associations of laborers with each other in order to promote their common interests, have rapidly increased in number and influence throughout Europe, but especially in England, France, and Germany. The disastrous revolutions of 1848 first drew serious attention to the fact that great uneasiness and discontent existed among the laboring classes in these countries, and especially among those who were more educated and intelligent. Labor and capital, instead of working harmoniously with each other in the pursuit of a common end, had come to be regarded as opposing interests, and the rivalry and antagonism between them often passed into feelings of bitter

hostility. The earnings of the workman, even when united with those of his wife and children, were barely sufficient for subsistence on the coarsest and cheapest food; while the aggregation of business and capital into a few hands, the improvement of the machinery, and the immense scale on which the work was done, disposed the laborers to contrast the wealth which they created for their employers with the misery of their own condition. The gains of the capitalists, it is true, were not always as large as they seemed. The keenness of their competition, and the rivalry of nations in the attempt to undersell each other in the markets of the world, often reduce profits to a minimum. Hence the first combined attempts of the operatives to enforce higher rates of wages often defeated their own end, by destroying profits altogether and thereby driving capital out of the business. Still the belief prevails, — and it is too well founded, — that while there has been a prodigious increase in the efficiency of labor and in the amounts of wealth produced, the manual industry which has done nearly the whole work has failed to secure its just share of the proceeds. The conviction is wellnigh universal, that there must be a readjustment of the relations between capital and labor, and a larger share of the values produced be allotted to the latter.

Labor, as we have seen, is limited by capital, and can accomplish little or nothing without its aid. But there is no sufficient reason why the *ownership* of these two agencies should be entirely disjoined; why comparatively few persons should own or control all the capital, and a vast number depend solely upon the wages of their handiwork. Hitherto a remedy for the hardships and injustice of the laborers' lot has been sought chiefly through their combination with respect only to their industry, strikes being organized to enforce higher rates of wages, under the penalty of work being discontinued all at once, so as to cause machinery and other forms of capital to remain idle for a considerable time at a great loss to their owners. But it is easy to see that strikes are ruinous to both parties, — to the employed as well as to the employers. By diminishing production, discouraging enterprise, consuming capital unproductively, and bringing in foreign competition, they dissipate the means of paying wages, and contract the field for the employment of industry. They spread dissension and inflame hostility, not only between employers and workmen, but among the

workmen themselves, the majority of them striving by insults and outrages of every sort, sometimes even by violence and menaces of death, to compel a few dissentients to engage in the strike against their will. The funds previously accumulated to support them in their self-enforced idleness are soon expended; privations and extreme suffering ensue; and then the irritated and half-starving operatives seek vengeance by attacking the property or lives of their former employers, and thus incur the full penalties of the law.

Even when strikes succeed, they have a demoralizing influence: they violate the inalienable right of every individual to dispose of his industry and his property as he pleases; and they lead to an unjust distribution of wages, because the uniform rates thus established raise the indolent and the unskilful to an equality with industrious and efficient workmen. Periods of compulsory idleness are destructive of all good habits, and impair the efficiency of subsequent work. Then, too, strikes do not always succeed. The employers can combine, as well as the employed; and on account of the fewness of their number and their large command of capital, they can hold out, though at great loss, longer than their opponents. They meet the strike by what is called a "lock-out," — shutting up every branch and department of all the manufactories, and thus compulsorily increasing the number of operatives without work, so that the funds provided for supporting them in idleness may be sooner exhausted. Often the distressed laborers are thus driven to surrender; and then, after they have wasted all their previous earnings, and submitted to much hardship, they sullenly go back to work at the old, or even at reduced, rates of pay.

But, however inexpedient and demoralizing strikes may be, they cannot, so long as those engaged in them refrain from any sort of outrage, be justly forbidden by law. Operatives have as good a right to form combinations either to work or to abstain from work, as their employers have, to unite in establishing a tariff of prices or wages. In this respect, the only motto for both parties must be, *Laissez faire*. If there is no express agreement to that effect, neither party is justly bound even to give previous notice of the termination of his engagement: no such contract ought even to be implied, in the absence of express stipulation. The pre-

sumption of law should always be in favor of the largest liberty for both parties. English legislation attempted for a long while to curtail this freedom, by making it a penal offence for the workman or servant — the two words, used indiscriminately, showed in what estimation the former was held — to quit his employment without good cause, or to combine with others in an endeavor to raise wages. But such statutes are now repealed or disregarded, from a conviction of their injustice and inutility.

Labor, as Mr. Thornton reminds us, will not *keep*. It cannot, like other commodities, be stored away to await a favorable turn in the market; but it must be sold immediately, or a portion of it will be wasted with every hour's delay. Unlike most other traffickers, also, the laborer has but one commodity — his industry — to sell: if he cannot dispose of *that*, he has nothing else wherewith to buy food. The capitalist-employer, on the other hand, has many alternatives. He can invest his property in government or railroad stock, send it out of the country in foreign undertakings, or put it into those forms of manufactures which, as they are carried on mainly by fixed capital, require comparatively few hands. The most impolitic thing the workmen can do is to provoke a contest with their employers in some branch of industry in which, because recently established or otherwise in an unprosperous state, only low wages can be afforded. A strike is none the less fatal to them because it also ruins their paymasters, and thereby shuts up one field for employment. Those who work for wages, moreover, often do not have much except their wages to live upon; and thus they find the old saying is true, that "the destruction of the poor is their poverty," for it will not allow them to chaffer about the price to be paid for their industry. The employers usually have to regard only their own competition with each other, being confident that the lowest price which they are thus induced to offer cannot fail to be accepted by nearly destitute applicants for work. When the rate of profits is high, this competition may be so keen that high pay will be offered; but if the success of previous strikes has reduced profits to a minimum, the competition slackens so much that employment can be had only at very low rates. Thus the very success of the strikes may so far defeat their own object as to render any employment of labor on a large scale unprofitable.

Strikes are always impolitic in the long run, then; for an open contest between labor and capital must be ultimately destructive in its effects upon both. But as they are sometimes successful for a while in their immediate object, organizations for supporting them, and carrying them out on a large scale, have become very numerous of late, both in England and America. These Trade-Unions, as they are called, sometimes have as many as 50,000 members in a single branch of industry; and by levying a small monthly assessment on the earnings of each, they accumulate large funds as a provision for any contest that may be impending. In England, in 1865, the Miners' Association had 54,000 members, and the "Amalgamated Engineers" 43,000, distributed into 308 branches, and increasing at the rate of two or three thousand yearly. The annual income of these "Engineers" was over $ 430,000, and their accumulated funds amounted to $ 700,000. The "Miners" in Pennsylvania, and the "Knights of St. Crispin," or associated boot and shoe makers, of Massachusetts, are hardly less numerous. They are under perfect discipline, turning out on strike at a day's notice, and remaining out till the word is given to end the strike, all their movements being carefully concerted by their officers. They enforce membership even on those operatives who are unwilling to join them, by refusing to work for masters who employ non-Unionists. In this way, employers have been compelled to discharge their own brothers or nephews, if they had not joined the Union. Thus armies of workmen are arrayed, as it were, in a hostile camp, to wage war upon that Capital on which the efficiency of their labor mainly depends. All of the associations are also more or less affiliated with each other, and their treasuries render mutual aid, so as to prolong the contest till the patience or the capital of the particular employers who are standing out is exhausted. In all free countries, also, by concerted action at the political elections, they often obtain so much influence over the legislature as to dictate the enactment of laws to favor their interests. Master manufacturers, thus attacked, have no resource except to break up their establishments, and either send their capital abroad, or see it rapidly waste away. Then, indeed, skilled artisans cannot obtain employment on any terms, and are compelled to become agriculturalists or rude laborers.

As labor and capital, in the natural exercise of their functions,

are mutually dependent, and assist each other, we can see no cause for the misunderstanding and antagonism between them, except that they are too exclusively owned or controlled by different classes of persons. It would be Utopian to expect, indeed, that every capitalist should also be an artisan, and every artisan, at least in some small measure, a capitalist. But however it may be in the Old World, there is no reason, here in the New, why they should not go into open partnership with each other, throw their common earnings into one stock, and divide this upon equitable principles depending upon their respective efficiency and merits. Their union may even be so close that their respective shares would no longer need to be designated by distinct names, as Wages and Profits. As the evil arose from massing capital into too few hands, — a result which has been met and counteracted by massing the laborers into few associations, — the remedy must be found by breaking up both aggregations, and resolving them into so small bodies that the same persons may own both capital and labor, and throw these into a common fund. The principles for the establishment of such union, and for the equitable division of the common earnings, may be easily discovered, though it may be difficult to reduce them to practice.

If the ordinary profits on Circulating Capital are ten per cent, and the ordinary wages of a skilled workman are $ 500 a year, it is obvious that one who contributes $ 5,000 as capital, and the artisan who contributes a year's labor, ought to receive an equal share of the common earnings. Then a manufactory carried on by half a million of capital and two hundred operatives might be made a joint-stock corporation of three hundred shares, one third of which would represent Capital, and the other two thirds Labor. From the net annual earnings, a sum sufficient to replace the Fixed Capital, vested in machinery, etc., as fast as it was worn out, should be deducted, and the remainder be equally divided among the three hundred shareholders. Inequality of skill and industry among the persons employed might be equitably compensated by allowing only half a Labor-share to an inferior workman, one and a half shares to a first-class hand, three shares to an overseer, and ten shares, or more, to the general manager and superintendent. The shares representing Capital need not be *equally* distributed among the associates; but in order that the fusion of interests be-

tween Labor and Capital might be as perfect as possible, each operative should own at least a fraction, say one fourth, of a Capital-share; while an overseer should possess not less than three such shares, and the general manager all the others, no person being allowed to own any capital in the concern who did not also contribute his own labor. As the operatives could not wait till the balance was struck at the end of the year before receiving any portion of their earnings, the invested capital ought to be large enough to allow advances to be made, weekly or monthly, of sums not exceeding three fourths the probable amount of such earnings, interest being allowed to those who did not require the advances.

In such a joint-stock association, each associate contributing both Labor and Capital, no antagonism such as leads to strikes could arise, and there would be no dispute about the equitable division of the common earnings. Another great gain would be secured, in that the strongest inducements would be offered for the diligence and fidelity of all the hands, each watching his fellow, in order that no carelessness or shirking of work should impair the net product. Several of the English Trade-Unions make rules expressly forbidding unusual exertion or activity by any workman, the object being to obtain as much pay, and do as little work, as possible. Bricklayers' laborers, for instance, are not allowed to wheel bricks in a barrow, or to carry more than eight or ten bricks at a time on their shoulders, the number varying with the height to which they are carried; and the "Operative Masons" are enjoined "not to take up less time than an average mason in the execution of each description of work." Under such regulations, one is not surprised to learn that some kinds of English manufactures are already surpassed in excellence and cheapness by those made on the Continent, and that so many of the latter are imported into Great Britain that the operatives there are beginning to clamor loudly for a renewal of the Protective System. Free Trade finds advocates only among those who are sure that they have nothing to dread from foreign competition.

The large funds accumulated by the Savings' Banks, Friendly Societies, and Trade-Unions, both of England and America, prove that laborers save enough from their earnings to enable them to furnish much of the capital for the very manufactories from which they now receive nothing but wages. There is no reason why this

portion, at least, of the national Capital should be divorced from Labor in its application, though already united with it in ownership. By combining their responsibility they may also obtain credit for large loans of Capital, as has been proved by the great success of the Credit-Banks which Schulze-Delitzsch has established throughout Germany.

One workman cannot usually obtain a loan when he needs it, for his credit is not good enough, and he has no security to offer. But if a hundred workmen combine, in one of these Banks, both their credit and their small savings, the Bank can obtain for them loans at least thrice as great as the sums which they have deposited in it, the security being the aggregate of these deposits, besides the joint and several responsibility of all the depositors. The aggregate Capital thus formed — consisting, we will suppose, of $5,000 received from the deposit of savings, and $10,000 more obtained by loan from other institutions or individuals — is then invested, at a somewhat higher rate of interest, in small loans to those of the depositors themselves who happen to need such advances; and thus one of the workmen so associated can obtain for a considerable time, and at a moderate rate, the use of a capital from two to four times as great as the amount of his own savings. A small entrance-fee is required, and then the value of one share, which is $50, may be made up by small monthly payments: a loan can be obtained only when the share is fully paid up. The profits of the Bank arise from the interest obtained on the sums deposited, and from the difference — usually three or four per cent — between the interest received and that which is paid on the amounts procured by loan. After deducting five per cent, in order to form a reserve fund which, together with the entrance-fees, will ultimately cause the Bank's own stock to equal its borrowed capital, these profits are divided annually among the shareholders. Any one who quits the association by withdrawing his deposit forfeits his share of this reserve fund, and also continues for a year to be liable for the debts incurred by the Bank before his withdrawal. Only the shareholders can obtain loans, and as they constitute the association and control its management, they keep a sharp lookout on each other, to prevent their profits from being diminished by irrecoverable debts.

Such an institution is evidently a modified Savings' Bank, which

employs both its own funds and its credit to enable its depositors to add the profits of capital to the wages of their labor. The plan has had great success; for, in 1865, there were 1,300 of these Credit-Banks in Germany, with more than 300,000 members. About 500 of them, from which we have returns, had nearly 170,000 members; had accumulated eight millions of dollars in their share capital, additional deposits, and reserve funds; had loaned in one year fifty millions to their shareholders; and had distributed, as the net profits of one year's operations, nearly $288,000, or over three and one half per cent, having lost in that year only $15,000 by bad debts.

Experience has proved, also, that the capital thus placed within the control of the workman can be profitably applied by him in connection with his own labor, and will make that labor more faithful and economical, more painstaking and contented. Co-operative stores have been established with capital supplied by the laborers themselves, at which they can obtain the necessaries and comforts that they require, on better terms than can be offered by the retail tradesmen, who are burdened with heavy expenses in rent, advertising, competition with each other, and bad debts. The poor are obliged to pay high prices for bad provisions and groceries, because they buy very small quantities at a time, thus enhancing the cost of weighing, making up packages, etc.; because they are not good judges of the quality of the articles purchased; and because, though they cannot obtain credit for themselves, they must pay the higher rates of profit necessitated by "bad debts" from other customers, which the most prudent retail dealers cannot wholly avoid. The Rochdale Pioneers' Association was founded, in 1844, by twenty-eight journeymen mechanics, who had kept out of debt, and who, by combining their means, made up a little capital, less than $150, hired a room at a rent of $50, purchased at wholesale prices some sacks of flour and oatmeal, a barrel of sugar, a firkin of butter, and a few other small articles, and commenced business. One of them was deputed to act as salesman, the store being opened only for a few hours in the evening twice a week. Rigidly adhering to the rule of selling only for cash, and charging for good articles only the prices current in the neighborhood for bad ones, they soon found that over fourteen per cent of these prices were returned to them

at the end of the year under the form of a thirty-per-cent dividend of profits on their capital. Very soon, coal, meat, shoes, cotton and woollen goods, and all other commodities which workmen need to purchase, were added to the original business, and the institution has become one of the most prosperous ever established for the benefit of the working classes. In 1867, it had nearly seven thousand members, employed $ 640,000 as capital, and distributed over $ 200,000 as profits. Nearly two hundred similar Co-operative Store societies have since been established in England, and their sales amount annually to thirty millions of dollars. Many others have been founded in Germany and this country, and always with good success when they have adhered to the rule of never selling on credit, and when they have had competent and faithful managers, whom it is always good policy to secure, even at high salaries.

In many instances, also, manufacturing and mining enterprises, and the mechanic arts and trades, have been successfully conducted, and on a large scale, — either by the workmen themselves furnishing the capital, or a large portion of it; or by capitalists giving to their operatives a share of the profits in addition to their ordinary wages. Even in the latter case, where the alliance between Labor and Capital is less complete, it is generally found that the more hearty co-operation, thus secured, of the employed with their employers, and their greater diligence, zeal, and carefulness in the work, so much increase the profits that the net income of the proprietor is larger than its gross amount was before any deduction was made for the benefit of the workmen.

Thus, the Briggs collieries in England had been conducted for twelve years with small success, chiefly because the men employed, nearly one thousand in number, were on ill terms with the proprietors; strikes were frequent, — one of them lasting for thirty-five weeks; holidays were often demanded, during which the machinery and works remained idle at a great loss; and general waste and carelessness prevailed. Consequently, the profits were small, for two years being only five per cent, and rising above ten per cent only for one year. To remedy this state of things, the business was transferred, in 1865, to a joint-stock company, one third of the shares being offered, at $ 50 each, to the miners and hired agents and overseers. It was also agreed that, whenever

the profits, after reserving a portion sufficient to renew the machinery when worn out, should exceed ten per cent, one half of such excess should be distributed as a bonus to all the persons employed in or about the collieries, in sums proportional to their respective earnings during the year in which the profits accrued, the other moiety of the surplus being added to dividend on capital. This offer certainly was not remarkable for liberality; but it operated like a charm in producing the heartiest co-operation and good-will among all the parties concerned, and in promoting industry and avoiding waste. At one time, the price of coal having fallen, even a general reduction of wages was accepted without remonstrance. For the first year of the new system, the profits were fourteen, for the second they were sixteen, and for the third, seventeen per cent. In 1858, four hundred and fifty-four shares had been purchased by those engaged in the collieries, and the market price of each share had risen to $72. A similar experiment, tried for over fifteen years by M. Leclaire, — a house-painter employing, in Paris, more than two hundred hands, — has been equally successful.

Many attempts have been made to effect a still more complete alliance between the two agents of production, the whole capital being owned or managed by the work-people. This end, of course, is more difficult to be accomplished, even on a small scale, and is impossible on a large one; since the laborers, even by clubbing their savings and their credit, cannot obtain capital enough to meet all the exigencies of a great manufactory, and to live through the reverses to which they are exposed in the fluctuations of trade. The mode of trying the experiment is obvious enough. "A number of workmen, having contrived to procure the needful tools and raw material, must agree to work together at the same trade, under directors chosen by themselves from amongst themselves, and must further agree that the entire net proceeds of their industry shall be divided, in some prearranged proportion, among all who have contributed, whether by their labor or their capital, or by both, to the joint production." The French government has recently aided such enterprises by moderate loans at the outset; and with such aid, some associations of printers, cabinet-makers, masons, and other classes of artisans, at Paris, have been decidedly successful. Thus, in 1848, nine journeyman cabi-

net-makers formed themselves into a joint-stock company, with only one hundred dollars of capital. They soon obtained a good deal of custom, and their number increased more than tenfold. The state then helped them with a loan of $5,000 for fourteen years, at four per cent; and in 1857, they numbered one hundred and sixty-five associates and "auxiliaries," and were doing a business of $80,000 a year. In 1862, there were fourteen similar societies at Paris among the various trades, having an aggregate capital of $180,000, and the products of their business amounting to half a million annually, the average rate of profit being nearly twenty-three per cent.

In England, companies of this sort have not been so successful, as small enterprises there cannot so easily compete with large ones. Yet government has aided them, as far as seemed prudent and practicable. Parliament has passed laws sanctioning "partnerships of industry," as they are termed, in which the workmen are allowed to have an interest in the profits of the business, without becoming liable as partners for the debts; and encouraging co-operative stores and associations. Statutes have also been passed to recognize and regulate "Friendly Societies," formed by workmen for mutual life-insurance, and to grant small weekly allowances in case of sickness; also, to encourage building-associations, to open the Post-Offices as Savings' Banks for the laboring classes, and to grant annuities and life-assurances under the guaranty of the state. In Germany, under the practical guidance of the same wise philanthropist who invented and established the Credit-Banks, Schulze-Delitzsch, twenty-six companies had been established among the artisans, up to 1865, for the production and sale of finished wares on common account; and one hundred and eighty other associations, with about ten thousand members, for the supply, at wholesale prices, of the raw materials required by those who worked separately at their respective trades. Some of these organizations have been successful, while others have failed to answer the expectations of their members.

It is evident that many experiments must still be tried before the plans for combining the ownership of Capital with that of Labor — or, in other words, of merging profits and wages into a common fund — can be perfected. The attempt is most likely to succeed in those manufactures and trades in which labor con-

tributes more largely than capital to the value of the commodity; and unfortunately, the number of these is every day diminishing, because the progress of invention and the improvement of machinery tend inevitably to mass the business of production in vast establishments, which require an immense capital, and easily crush out, or outlive, small enterprises. In New England, for instance, within a quarter of a century, the invention of power-presses, sewing-machines, and almost countless contrivances for abridging manual labor in manufactures from iron and leather, have brought together into monster workshops the printers, tailors, shoemakers, and blacksmiths, who formerly plied their trades one by one, or in small parties.

Another obstacle to the success of co-operative associations arises from the difficulty of securing competent head management. The direction of a large business generally demands great sagacity and foresight, perfect acquaintance with the markets, and familiarity with a mass of mechanical, pecuniary, and administrative details. These qualities are not often found united in one person, as is proved by the frequency of failures and bankruptcies; and even when they exist, they are not likely to be fully developed and exerted, except under some stronger stimulus of self-interest than is afforded by the receipt of a good salary or a small fraction of the profits. Committees of management are proverbially negligent or meddlesome, inharmonious and unsuccessful: one executive head, and a very able one, is an essential prerequisite of success in any large undertaking.

It must be expected, then, that there will be the same alternations of failure with success in the business of combined workmen, as in that of individual capitalists. It is for the workman himself to judge, whether he will quit the security of his present position for the heavy risks and doubtful advantages of an active share in the business. At present, he is guarantied against loss. The workman's wages are his share of the average profit and loss commuted into a fixed payment. "The capitalist alone endures all the losses, alone furnishes all the advances, alone encounters the risk of ruin, and receives only what profits may remain after the laborer's commuted share is paid. The workman's share is a first mortgage; the capitalist's share is only a reversionary claim." Under the light of the experiments which have thus far been

made, perhaps the best advice which can be given is, that the employed should continue in the receipt of moderate wages, and that the manager-capitalist should, for his own sake as well as for that of the other parties concerned, promote harmony, prevent strikes, and encourage diligence and fidelity, by annexing to the wages one third or one half of whatever surplus profits there may be over such a rate per cent as would be an average income on ordinary investments. The probable result will then be, as in the case of the Briggs collieries, that the proprietor's share, after this deduction, will be greater than it would have been had no such deduction been made.

CHAPTER VIII.

THE MALTHUSIAN THEORY OF POPULATION CONSIDERED AND REFUTED: THE TRUE LAW OF THE INCREASE OF POPULATION.

THE laws of Political Economy, for the most part, are inferences from the general fact that individuals compete with each other in the pursuit of wealth. Rents, Profits, Wages, Prices, are determined by competition; and as we are able to foresee what the effects of competition will be, we can show how these things will vary under given circumstances. Thus, Profits tend to an equality in all employments, because capitalists compete with each other, and will withdraw their capital from a business which is less profitable, to invest it in one which is more so; this influx of capital into the more lucrative employment soon reduces the rate of profit in it to a level with the Profits in other employments. The Price of an article, of which there is a given quantity in the market, is determined by the Demand for it, — that is, by the competition of the buyers. And this Demand, again, regulates the future Supply of that article; for, as the competition of the buyers becomes warm, the Price is enhanced, the Profits of those who produce the article are increased, more capital is attracted into the employment, the Supply is enlarged, and the Price falls again.

These principles are sufficiently obvious; and if there were not

exceptional cases, if their application was not modified and restricted by a crowd of circumstances, Political Economy might be called a demonstrative, or even an intuitive, science. Its maxims might all be taken for granted, and men would act upon them without giving themselves the trouble of enunciating them in an abstract form. But there are numerous exceptions and modifying circumstances, which need to be carefully considered; and in this chapter I propose to examine the most important of them.

There are two things the Supply of which is not regulated by the Demand; and they are two very important things, — namely, Land and Population. Our wants and our desires do not, in these two cases, create, or even tend to create, the means of satisfying them; those means are wholly beyond our control. We cannot increase the quantity of surface of the habitable globe; we cannot, at will, either enlarge the Population, or put limits to its growth, except by transgressing the moral laws which guard the sanctity of human life. It is conceivable that the well-being of a community may be greatly affected by these two inexorable facts. With all its labor and ingenuity, it cannot materially enlarge the limits of its territory, except by robbing its neighbors; it may reclaim a little land from the waters along the margin of a river, a lake, or an ocean; but it is obvious that its power in this respect is restricted within very narrow limits. And if its Population should begin to waste away, or to increase with undue and inconvenient rapidity, the will of a monarch or the wishes of a people would not suffice to arrest either its decline or its growth. Still they are dependent for food upon the products of the Land, the amount of which products must finally be limited by the extent of surface of the earth.

On this possible or conceivable increase of the numbers of mankind, united with the fact that the cultivable surface of the earth is a fixed quantity, which cannot be enlarged, is founded the celebrated theory of Mr. Malthus. We are not at liberty to put aside the discussion of this doctrine, as if it were a mere speculation, which can have no practical importance except in a contingency certainly very remote, and which *may* never be realized. It is dwelt upon and applied by nearly all the English Economists as if it were a truth of great moment. The whole subject of Political Economy is colored with it; it affects the doctrine of Rent,

Profits, and Wages, and leads to inferences in respect to each of them, which otherwise would be immediately rejected.

The followers of Malthus are somewhat dogmatic in their enunciation of the doctrine, and altogether impatient of any doubt of its correctness. This positiveness arises from a perception of the unquestionable correctness of the *data* on which the theory is founded; while the general reluctance to accept it proceeds from involuntary dread of the shocking conclusions that it has been made to support, and from disgust at the consequences of its practical application. The doctrine of Malthus is sometimes understood, in its extended sense, to comprise the whole body of these inferences from it, together with its application as advice for the government of men's conduct and the regulation of society; and when it is thus understood, the common sense and natural feelings of mankind shrink from it with that strong aversion which the supporters of the theory stigmatize as "sentimental horror." Taken in the more restricted meaning, always used by believers in the theory when it is controverted or denied, Malthusianism contains only one or two truisms about the law of increase that is common to the human race with the whole animal creation, which have no practical importance whatever, except for the purpose to which they were first applied by Malthus himself, — namely, to confute an absurd speculation by Godwin as to the perfectibility of the social state. Upon this ambiguity of meaning depends the whole controversy as to the law of Population and its consequences upon the well-being of society.

The proposition upon which the whole theory rests is this, — that the power of increase of any race of animals, the human species included, is indefinite, or incapable of exhaustion; and *if it were exercised to the utmost, without any check from external circumstances or from the animal's power of self-control*, the earth would not be large enough, I do not say merely to afford subsistence, but even to give standing-room, to the beings who would claim a place upon it. The capacity of increase necessarily acts *in a geometrical progression*; for, each pair being capable of procreation, if a people, under certain circumstances, increase within thirty years from ten thousand to twenty thousand, a mere continuance of the same cause and the same circumstances would enlarge the number, within the next thirty years, to forty thousand; and the third period would

carry it to eighty thousand. For example, a given rate of increase, in the ten years from 1790 to 1800, added but 1,200,000 to the white Population of this country; but from 1830 to 1840, *the same rate* of increase added 3,600,000. The Population was more than doubled from 1790 to 1820; it was again more than doubled from 1820 to 1850. But the former doubling added less than five millions to our numbers, while the latter doubling added over ten millions; and the next doubling, in 1880, will add twenty millions.

This law of possible increase in a geometrical progression belongs to every species, both of the animal and vegetable kingdom, of which we have any knowledge; it is an immediate and logical inference from the self-evident fact that every pair, whether of the earliest or the latest generation, whether forming part of a very small, or a very numerous, community, is equally capable of continuing and multiplying its kind. Its prolific power is not at all affected by the greater or smaller number of its fellow-creatures which may be already in existence. If Population should go on in this manner without check, it is evident that, within a few centuries, the earth might literally be overstocked with human beings: if they should stand shoulder to shoulder, as thickly as the stalks of wheat in a cultivated field at harvest-time, there would still be a call for room; for the next thirty years would inevitably double even this immense assemblage.

Observe that this law of increase by geometrical progression holds good, whether the annual rate of increase be fast or slow. In the United States, for instance, the annual rate, *exclusive of the effects of immigration*, is 2.39 *per cent*, and, as a consequence, the Population is doubled in little over 32 years. In France, the annual rate is but 0.6, and the Population, therefore, is not doubled in less than 115 years. Still, it *will* be doubled in that time; and therefore, in 230 years it will be quadrupled; thus following the law of increase by geometrical progression, if it increase at all. The theory of Malthus may be said to owe its plausibility, in great part, to the fact with which all arithmeticians are familiar, that a number, increasing by geometrical progression, within a few terms rises to a very formidable amount.

Mr. Malthus further undertakes to show, that the means of subsistence, under the most favorable circumstances, cannot increase

so rapidly as the number of mouths calling for food. The race of Population against food, he maintains, is like that of Achilles against a tortoise; it is too unequal, whatever may be the advantage at first possessed by the weaker party. Whatever may be the present superfluity of sustenance, or the means of increasing sustenance, Population multiplies so fast that it must soon overtake and surpass the supply of nourishment. Looking at first only to Great Britain, he says: "If it be allowed that, by the best possible policy and great encouragements to agriculture, the average produce of the island could be doubled in the first twenty-five years, it will be allowing probably a greater increase than could with reason be expected. In the next twenty-five years, it is impossible to suppose that the produce could be quadrupled. It would be contrary to all our knowledge of the properties of land. The improvement of the barren parts would be a work of time and labor; and it must be evident to those who have the slightest acquaintance with agricultural subjects, that, in proportion as cultivation extended, the additions that could yearly be made to the former average produce must be gradually and regularly diminishing.

"Let us suppose that the yearly additions which might be made to the former average produce, instead of decreasing, which they certainly would do, were to remain the same; and that the produce of this island might be increased, every twenty-five years, *by a quantity equal to what it at present produces.* The most enthusiastic speculator cannot suppose a greater increase than this. In a few centuries, it would make every acre of land in the island like a garden. If this supposition be applied to the whole earth, and if it be allowed that the subsistence for man which the earth affords might be increased every twenty-five years *by a quantity equal to what it at present produces*, this will be supposing a rate of increase much greater than we can imagine that any possible exertions of mankind could make it. It may fairly be pronounced, therefore, that, considering the present average state of the earth, *the means of subsistence*, under circumstances the most favorable to human industry, *could not possibly be made to increase faster than in an arithmetical ratio.*

"The necessary effects of these two different rates of increase, when brought together, will be very striking. Let us call the Popu-

lation of this island 11 millions, and suppose the present produce equal to the easy support of such a number. In the first 25 years, the Population would be 22 millions; and, the food being also doubled, the means of subsistence would be equal to this increase. In the next 25 years, the Population would be 44 millions, and the means of subsistence only equal to the support of 33 millions. In the next period, the Population would be 88 millions, and the means of subsistence just equal to the support of half that number. And at the conclusion of the first century, the Population would be 176 millions, and the means of subsistence only equal to the support of 55 millions, leaving a Population of 121 millions totally unprovided for.

"Taking the whole earth instead of this island, emigration would of course be excluded; and supposing the present Population equal to one thousand millions, the human species would increase as the numbers 1, 2, 4, 8, 16, 32, and subsistence as 1, 2, 3, 4, 5, 6. In two centuries, the Population would be to the means of subsistence as 256 to 9; in three centuries, as 4,096 to 13; and in two thousand years, the difference would be almost incalculable."

Malthus does not find much comfort in the fact that the human race have already inhabited this globe for more than six thousand years, a period surely long enough, with the aid of a geometrical progression, even if the annual rate of increase had been very small, but regular, to have brought into being vastly more than the poor 800 millions who now stock the earth. Practically, down to the present day, the only evil which has been felt has been, not an excess, but a deficiency, of Population. Even Spain, once the head of European civilization, had ten millions of inhabitants in the middle of the sixteenth century, and one hundred and twenty years afterwards it had only six millions. The classical scholar need not be reminded of the still more striking depopulation of Italy under the Roman emperors, and, at a still earlier day, of the provinces which now constitute Turkey in Europe. Asia Minor and the region on the banks of the Tigris and Euphrates were teeming with inhabitants twenty-five centuries ago, while they are now very sparsely populated, and probably do not increase at all.

But the causes which formerly kept down the natural increase of the people have now, in all civilized communities, in a great

measure ceased to act. War is, at present, an infrequent and much less destructive calamity. Epidemic diseases no longer lay waste whole provinces; remedies for them, or modes of preventing them, have been discovered. The practice of vaccination alone, by robbing that frightful disease, the small-pox, of its terrors, has added some years to the average duration of human life. The greater prevalence of cleanliness, the improvement of the diet, dress, lodgings, and other accommodations of the mass of the people, and the drainage of bogs and marshes, by which agues and marsh fevers have been prevented, with the many improvements in medical and surgical science, have materially lessened the rate of mortality, and thus caused the population to increase more rapidly.

A comparison, made by M. de Chateauneuf, of the movement of the Population in most countries of Europe, from 1825 to 1830, with what it was from 1775 to 1780 — an interval of only half a century — supplies some striking illustrations of this point. Out of a given number of children born in Europe, only one third, says the author, now die in the first ten years, while formerly one half died within that period. Fifty years after birth, three fourths of a generation, or 75 in a hundred, had died; now, only thirteen twentieths, or 65 in a hundred, die below the age of fifty. The proportion of deaths to the whole Population is now as one to forty; then, it was as high as one to thirty-two.

These facts, to most people, would seem to afford great cause for congratulation. Human life has been made longer; disease has lost a portion of its power, or has been conquered by care and medical science. Population is kept up, not merely by increasing the number of births, but by lessening the proportion of deaths; thus, among a given number of inhabitants, there are fewer children; and hence the average strength and capacity, the productive power of the community, is increased. "The prevalent opinion," says McCulloch, "had been, that an increase of population was the most decisive mark of the prosperity of a state, and that it was the duty of government to stimulate its increase, by encouraging early marriages, and granting exemptions from onerous public services, and bestowing rewards on those who reared the greatest number of children."

"But Mr. Malthus," he adds, "has set the erroneous nature of

this policy in the most striking point of view. He has shown, by careful examination of the state of countries in every stage of civilization, and placed under the most opposite circumstances, that the number of inhabitants is everywhere proportioned to the means of subsistence; that the *tendency* of the principle of increase is not to fall below, but to exceed, these means"; and consequently, the Population must be kept down to its necessary level, either by the influence of moral restraint, and a proper degree of prudence and forethought in the formation of marriages, — that is, by the Preventive check, which diminishes the number of births, and so increases the effective power of the community; or it must be kept down by the influence of mortality originating in vice, want, pestilence, and misery, — that is, by the Positive check, which increases the number of deaths, and so makes the community weaker than before.

I cannot trace out here all the gloomy consequences which Malthus and his followers derive from his theory; it must suffice, to indicate a few of them. He assumes that the Population in every country in Europe has *already* increased to such a degree that it is actually pressing upon the means of subsistence; and as it tends still to multiply faster than the quantity of food can be increased, the low wages of labor, poverty, disease, crime, and an average duration of life much less than it might be, are the inevitable consequences. Stop up the evil in one quarter, and it must break out in another, on account of the prolific power which is in reserve. If we put an end to war, famine or some epidemic disease must take its place, and carry off yearly as many victims as the war would have done. Stop the ravages of the small-pox by vaccination, and the Asiatic cholera, or some other disease, must appear, to scourge mankind with an equal number of deaths, if men will not learn prudence enough to diminish the number of marriages and births. The vessel is already full, and it is also fed from beneath with perennial springs. Check the overflow in one quarter, therefore, and it must escape in another. "I feel not the slightest doubt," says Malthus, "that if the introduction of the cow-pox should extirpate the small-pox, and yet the number of marriages continue the same, we shall find a very perceptible difference in the increased mortality of some other disease."

Wages, it is further said, depend on the proportion between the

numbers of the laboring class and the capital which is devoted to paying for labor. As the number of those seeking employment increases, — and it always tends, like a depressed spring, to rise, — the laborers compete with each other in offering to work at low prices, and Wages inevitably fall. Vainly does private munificence or public liberality seek to prevent this evil. Interference, in fact, only does harm: if the laborer can look to a poor-fund, or to private charity, to provide against the effects of his imprudence, he will never learn to be prudent. Leave him alone, then, say the Malthusians, to be chastised by fever, hunger, and misery into a sense of his obligation to society to refrain from increasing the number of his class. Let not the possession of a starving family constitute an additional claim for him who begs your charity; rather let it be his punishment. To devise means for relieving the present frightful condition of the laboring poor in England and Ireland is a hopeless and insoluble problem. The best advice which the leading Economist of this school can give his countrymen, in respect to this subject, is, that they should "fold their arms, and leave the *dénouement* to time and Providence."

The most effectual means of keeping down the increase of Population, it is said, is, to raise the laborer's ideas of what is necessary for his maintenance. Thus, says Col. Thompson, "a laborer in Ireland will live and bring up a family on potatoes; a laborer in England will see the world unpeopled first. Englishmen have the physical capability of living on potatoes as much as other men; but fortunately they have not the habit; and though it might be wrong to say that they would starve first in their own persons, they will utterly refuse to multiply upon such diet, — the effect of which on Population is ultimately the same. The Englishman will not live and bring up a family on potatoes; because, though he may consent to live on them when he can positively procure nothing else, habit, custom, the opinion of those around him, have made it in his eyes contemptible, irrational, absurd, for a man to be living on potatoes when he has the opportunity of getting anything better. In his hours of prosperity, therefore, he will to a certainty solace himself upon bacon, and most probably venture upon beef; and as this absorbs a greater portion of his income in what he views as necessary to his individual existence, it proportionally reduces his disposition to burden himself with new mouths."

I have endeavored to give as full a view as possible of the theory of Malthus and its consequences, without disguising the force of any of the considerations that may be adduced in its support. Without accusing it of any demoralizing tendencies, it must be admitted to present a very gloomy view of the condition of the human race, and of the ways of Providence with man. I hope to prove satisfactorily, that the doctrine itself is a mere hypothetical speculation, having no relation to the times in which we live, or to any which are near at hand. In those facts which appear so alarming to the Malthusians, I see only indications of a beneficent arrangement of Providence, by which it is ordained that the barbarous races which now tenant the earth shall waste away and finally disappear, while civilized men are not only to multiply, but to spread, till the farthest corners of the earth are given to them for a habitation.

I begin with the proposition, that the power of the earth to afford sustenance is now so far in advance of the actual numbers of mankind, that no probable, and in fact no possible, increase of those numbers, not even by a geometrical progression, can create a general and permanent scarcity of food for centuries to come. The great and palpable error of the Malthusians consists in assuming, without a particle of evidence, — nay, when all the evidence tends to the contrary, — that *the time has already come;* that Population has reached its limits; that there is even now a deficiency of food; so that the only *present* mode of increasing the happiness of the lower classes is, to lessen their numbers. Malthusianism in its simplest form is only the expression of a law that belongs both to the animal and vegetable kingdom, and its truth is undeniable; yet we say that it has no applicability to the present state of affairs, and we have no immediate concern in establishing its truth or falsehood.

The absurdity of talking about the necessary pressure of Population upon the means of subsistence, as an explanation of the evils with which society is *now* oppressed, was well exposed, many years ago, by Col. Thompson. "If it should be urged," he says, "that there *must always come* a time when Population will press against food, and therefore there is no use in attempting to escape it, — this would be like urging that there is no use in a man's escaping from murder now, because he will not be immortal afterwards. There is all the difference in the world between enduring an evil

by the will of Providence, and by the act of man. Human life, in the whole, is but the procrastination of death; but that is no reason why men should die just now, for other men's convenience. There may come a time when there will be no coal to burn, no iron to make tools, and perhaps no salt left in the sea; but this is no reason why men should not make something of the interval which must intervene. The time when Population will press irremediably against food must, to a great manufacturing and naval people, be almost as remote as the time when there will be no salt left in the sea."

The average density of Population in Europe, in which quarter of the globe alone any excess of numbers is to be feared, for centuries to come, does not exceed 70 persons to the square mile. The Europeans, then, on an average, are not quite so crowded as are the inhabitants of Spain, a country the Population of which might be increased fourfold before it would be as thickly peopled even as England. Belgium has the densest Population of any state on the Continent of considerable magnitude, the average amounting to at least 350 persons to the square mile. Great Britain and Ireland, in respect to which the complaints of over-population have been loudest and most frequent, had but 251 to the square mile in 1861, so that the population might be increased thirty-eight per cent before these countries would be as densely peopled as Belgium. Taking all Europe together, the Population might be five times as great as it is now, before the inhabitants would be as crowded as they already are in Belgium. Supposing that the average rate of increase for all Europe were as high as it now is in France, — a supposition which is certainly beyond the truth, — more than three centuries must elapse before the Continent could be thus peopled, even if no allowance were made for emigration, and for the gradual lessening of the rates of increase as the Population becomes more dense. Making allowance for these checks, the period must be increased to at least five centuries. An evil which is some five hundred years distant from us need not excite much alarm in the present generation.

Is there any evidence, then, that Belgium is over-peopled, the country which is already in the condition that all Europe fears it will arrive at some five centuries hence? By no means. The information which shows that it is not, I derive from McCulloch, who

is himself an ardent upholder of the theory of Malthus, so that his testimony can be received without question. "Although the cultivation of the earth in this kingdom is carried to a great extent, one eleventh of the surface still remains uncultivated; one eighth consists of grass lands, and the arable lands occupy one half. The very large produce obtained by the Flemish farmer is solely attributable to indefatigable industry; for the soil is naturally poor, and the climate is by no means especially favorable, the winters being longer and more severe than in England. The central part of the kingdom includes much of the richest portion of the soil; but it does not, on the whole, exceed the average fertility of the inland counties of England, and must decidedly be considered inferior to the rich alluvial soils denominated the *carses* of Scotland. But taking the whole country together, the soil, artificially enriched, produces more than double the quantity of corn required for the consumption of its inhabitants, and agricultural produce is exported to a great extent."

Looking, therefore, merely to the capacity of the earth to afford sustenance, it appears that the most densely peopled country in Europe, and one by no means richly favored in respect to the natural properties of its soil, is not yet more than half populated; and still several centuries must elapse before all Europe can be as densely populated as Belgium. Malte Brun has said that the soil of Europe alone could afford ample food for a thousand millions of inhabitants, being nearly five times its present number, and more by one fifth than the actual population of the globe. Turning to America, we find the basin of one great river, the Mississippi, capable of supporting as many inhabitants as now occupy all Europe, though the actual population of the whole United States does not equal one tenth part of that number. If we add the tropical and southern portions of the great American continent, and then go to the antipodes to look at Australia, the area of which does not fall far short of that of all Europe, — if we consider what an insignificant fraction of these vast regions is yet tenanted by civilized man, — we are obliged to give up our statistical calculations in despair; the imagination fails to grasp the possible number of human beings whom the earth might support, or the number of years that must elapse (judging from the world's history thus far) before this extent of space can be fully peopled, and there can be a just call for room.

Till this limit is approached, — that is, for several centuries yet to come, — every birth adds something, or might add something, to the possible surplus of food. *If there are more mouths to feed, there are more hands to feed them with;* if there is more work to be done, there are more laborers to do it. It is demonstrable that, since the labor of one person upon the soil must produce more than is necessary for his own subsistence, the more hands there are employed in agriculture, the greater will be the surplus for those engaged in other occupations. That the surplus will not increase *in the same ratio* with the number of agricultural laborers, is a fact of no importance; before the growth of the Population can be checked by absolute deficiency of food, there must cease to be *any* surplus, and the earth must not yield enough even for the subsistence of him who cultivates it. We may have as much dread of *this* contingency as of the sun's expending its whole stock of light and heat, or of there being no salt left in the sea.

Ireland is an instance directly in point to bring the doctrine of the Malthusians to a test. They say that the island is overpeopled, and that their excessive number is the cause of the wretchedness of its inhabitants. But in ordinary years, Ireland not only supplies food for her whole Population, but her exports of the cereal grains alone amount to five millions sterling, and of meat, butter, and cheese to at least half as much more. It is absurd, then, to say that the Population is here pressing against the means of subsistence; and if the doctrine does not hold true in this case, to what country in the civilized world is it applicable? Another view of the matter leads to the same result. If the land were parcelled out, and the same modes of cultivation pursued, in Ireland as in the Netherlands, the former country being naturally far the more fertile of the two, it is demonstrable that the soil would furnish abundance of food for twenty-six millions of inhabitants, instead of supporting, as it now does, little over five millions and a half, of whom, a few years ago, one half were on the brink of starvation.

Barbarous, and even half-civilized, nations, it is admitted on all hands, are in no danger of multiplying too rapidly; the law of a geometrical progression is not applicable to them; they do not increase, but decrease. The aborigines of a country, wherever they come in contact with civilization, melt away as ice and snow

do at the approach of summer. So it has been with the Indians of our own continent, with the natives of Australia, the Hottentots of South Africa, the Moors of Barbary, and the natives of the Pacific isles; and so it must always be. War, disease, vice, and ignorance, which are necessary accompaniments of the savage state, are destructive of human life; they do not allow the Population to increase; they seldom permit it to hold its own. Go a little higher in the social scale, and this result is but little modified. The Turks, the Arabs, the Tartars, the Hindoos, are probably not so numerous as they were a century ago. The countries which now form Turkey in Europe and Turkey in Asia were more populous, two or three thousand years ago, than they are at the present day. The wasting away of such tribes may be, in some cases, the consequence of a deficiency of food; but it is certainly not the result of over-population; for the civilized men who come to occupy their places obtain from the same soil abundance of food for a Population larger than theirs by twenty or a hundred fold. The bounty of Providence is not exhausted, but men do not make proper use of the means that are within their reach for satisfying their bodily wants: it matters not whether they leave much of the soil untilled, or send a large portion of its product out of the country while millions are famishing at home.

Civilized nations, let them multiply as fast as they may, do not devote their attention chiefly, or even in great part, to the supply of food, but to the acquisition of wealth. Exchangeable value in general, not the means of subsistence even in particular, is the object of their endeavors. What matters it to me, that my neighbor owns and cultivates a large extent of fertile land while I do not own a square foot, — provided that I have plenty of money in my purse? With that money, I can purchase food of my neighbor; I can even lay the fertility of both Indies and of the farthest corners of the earth under contribution to supply my personal wants. Communities and nations act, in this respect, just like individuals. If it be more profitable to them to devote their arable lands to other purposes than those of husbandry, they will do so without hesitation, being confident that they will be supplied with food from other lands. The inhabitants of Barbadoes, with a soil abundantly capable of supplying their wants, actually devote all their ground and labor to the cultivation of

sugar, cotton, and a few tropical products, which they export; while they import all their provisions, their wheat, pickled fish and salted meat, butter, cheese, etc., from the United States. They do not, on their own ground, raise food enough for the hundredth part of their own consumption. What they do almost exclusively, all commercial and manufacturing communities do to a certain extent. They devote their energies to getting wealth, and buy food whencesoever it may come to them, being careless whether it is raised in their own or in foreign lands.

Since the abolition of the corn laws, and of other oppressive charges in the British tariff, the market price of the chief articles of provision is not, and cannot be, ten per cent higher in Liverpool than in Boston; and *the supply* of these articles (which is the only point that we need consider here) is just as abundant in the former place as the latter. The farmers of Ohio, Wisconsin, and Iowa would rejoice at an opportunity to supply England and Ireland with all the wheat that they require. A failure of the English crops, or a multiplication of the English people, is certainly no misfortune to us, though we have to supply the food which in that case becomes necessary. Is it then a misfortune to the English, — a misfortune, I mean, of such a character as to justify them in complaining of the ways of Providence for sending more human beings upon the earth than the earth is capable of supporting? It is a calamity, unquestionably, *in regard to the acquisition of wealth;* for the necessity of buying so much food diminishes their store of wealth. But it is not a calamity *in regard to the supply of food,* or to the limited extent and fertility of the earth's surface. Man, not Providence, is in fault. Great Britain is obliged to buy all her cotton, an article of almost as universal consumption as wheat; yet this fact, being one to which she is habituated, is not made a subject of complaint. Cotton, however, can be produced to advantage only in a few regions, of comparatively limited extent; while the cereal grains can be raised over three fourths of the surface of the habitable globe. Should a new process of agriculture be discovered, by which cotton could be grown throughout England with so much facility and profit that the yearly returns of the farmer from it would be twice as great as from wheat, it is very certain that no wheat would then be raised on English ground, and yet there would be no deficiency in the

supply of that necessary article. In this case, she would raise her cotton and buy her wheat; now, she raises her wheat, and buys her cotton.

We can now see with sufficient distinctness the two great facts which afford a complete refutation of Malthusianism. The *first* is, that *the limit of Population, in any country whatever, is not the number of people which the soil of that country alone will supply with food, but the number which the surface of the whole earth is capable of feeding;* and it is a matter of demonstration, that *this* limit cannot even be approached for many centuries. The inability of England alone, or of Ireland alone, to supply her teeming population with food, is a fact of no more importance in the world's economy, than the inability of the city of London alone to supply her two millions of people with farm-produce from her own soil. London taxes all the counties of England for sustenance; England taxes all the countries of the earth for sustenance; — I cannot see any difference between the two cases.

Then, secondly, I say that *the practical or actual limit to the growth of Population, in every case, is the limit to the increase and distribution, not of food, but of wealth;* and it is certain that, in every civilized country, the increase in the number of its inhabitants is attended by a more than proportionate increase of its wealth. Among civilized men in modern times, a famine is created, not by any absolute deficiency in the supply of food, but because the poorer classes have no money to buy it with. As every human being is an implement for the production of wealth, a means of enlarging the aggregate national product or the amount of exchangeable values belonging to a nation, the increase of Population is not a cause of scarcity of food, but a preservative against it. It makes no difference whether the mass of the people are engaged in hammering iron, spinning cotton, or raising wheat; for the product in each of these cases either is food, or is exchangeable for food, which amounts to precisely the same thing. Commerce distributes equally all products for which there is an equal demand. *Our* crops did not fail in 1847; but the price of grain, in our seaport towns, and even in our back country, rose in as great proportion as in Ireland and Scotland. But all classes of our people were still able to buy the grain, even at the advanced price; while one half of the Irish people, and perhaps one sixth of the

Scotch, were too poor to obtain it at this price, and therefore they hungered, and very many of them died of starvation.

This is the true explanation of the famine of 1847 in the British Isles. The march of civilization, the extension of trade, the facilities of transport, and the consequent ease of supplying the failure of the crops in one country by the superabundance of the harvest in another, have made the recurrence of a proper famine, in modern times, impossible. By a *proper* famine, I mean such an absolute deficiency of food, and impossibility of obtaining it on any terms, as is suffered by the garrison of a besieged town, or by the crew of a wrecked ship. It is not in the scheme of Providence, as hitherto revealed to man, that harvests should fail all the world over at the same time, or even for the failure to be so general that the aggregate product should not suffice, — perhaps with some scrimping and some hardship, — for the aggregate want. No civilized nation, either in the Old or New World, ever fears an absolute deficiency of food: its fields may be unfruitful for a single season; but, in such case, it looks with well-founded confidence to its neighbors, and even to remote parts of the earth, for a supply. In 1847, the bounty of Providence to the British Isles did not fail; shiploads of corn were turned away from their shores for want of a market. The granaries of the two islands were filled to overflowing, not indeed from the products of their own harvests, but from the immense supplies poured into them by our ever teeming land. Flour and meal became a drug in the English market before a sheaf of that year's wheat was cut, and many dealers in grain were bankrupted by the consequent sudden reduction of prices. The fate of the Irish and Scotch appeared the more terrible, because *they starved in the midst of plenty.* They died, not because the fields were cursed with barrenness, but because they had not wherewithal to buy food. The price of breadstuffs did not become more than double its average in ordinary years, — did not rise so high, by one third, as in 1800 and 1801; and in those years, though there was scarcity, there was no famine. The year 1847 witnessed a frightful anomaly, which will long be remembered as a disgrace to modern civilization, — *a famine of which poverty was almost the sole cause.*

A fallacy pervades the whole reasoning of the Malthusians on the relation of the supply of food to the growth of the Population.

More grain is raised because there are more men who need it; and not more men are raised because there is more grain to feed them with. Procreation is not stopped because there is no more grain; since misery and the peril of starvation only make men reckless, and cause them to multiply faster. But agriculture is stopped when there are no more mouths calling for food; a cessation of Demand causes a cessation of Supply here, because the husbandman is looking only for pecuniary gain. But in the case of Population, a want of Demand does not occasion a want of Supply; since men are urged by their natural inclinations, and not by the state of the children-market, or by the desire of profit. They do not always marry because they want children, but because they want a wife. It is true, that the call for more food, which is created by an excess of numbers, will not be an effectual calling unless the people have the means to purchase it with; but these they will never lack if the wealth of the country is distributed according to the natural course of things, — that is, in exact proportion to the increase of each family, all the children sharing alike. At any rate, if the demand be rendered ineffectual from this cause, the real evil, the real check upon the Population, is not the insufficient supply of food, but the want of property. Turn the matter as we may, it is not the niggardliness of nature which is the source of misery, but the devices of man and the injustice of his laws.

In truth, it is demonstrable both from reason and experience, that Population never can rise to the point where it will meet this last and insuperable obstacle, — the absolute inability of the earth to contain and support more. Among the immediate evils to be first removed are ignorance, vice, bad government, and a virtual division of society into castes through unnatural, yet fixed, inequalities of wealth and condition. Take away these, and you will remove along with them the widely spread misery which they foster, and which is the great cause why Population multiplies unduly, or under circumstances that are not fitted for it. Hopeless misery renders men imprudent and reckless, and leads them to burden themselves with a family, though they are already starving, because they cannot be worse off, and there is no hope of improving their estate. To adopt the phraseology of Mr. Malthus, take away the Positive check, and the Preventive check will come into play of its own accord, — will come into play as the

easy, beneficent, and necessary result of the laws of nature and nature's God.

Whatever tends to keep men hopelessly poor is a direct encouragement, the strongest of all incentives, to an increase of Population. Take away the causes of misery, remove the insurmountable barriers which now keep the various classes of European society apart, and educate the people, — and there will be no fears of an excess of numbers. Take away the lower weights which keep down the spring, and the lever will never rise high enough to meet the upper check. The bounty of Providence never fails. It is not the excess of Population which causes the misery, but the misery which causes the excess of Population. The Malthusians say that the rise of wages encourages marriages among the poor, and thus augments the distress. On the contrary, it is the fall of wages which, by inducing recklessness and despair, causes the poor to multiply faster.

Having considered the doctrine of Malthus, let us now examine the true theory of Population, by inquiring into the circumstances which govern its increase and distribution. The law which regulates the increase of numbers in a civilized society is not hard to find, though it is difficult to express all the modifications that it undergoes from a change of circumstances. The consideration which affects most strongly the inclination of people to labor and to save, and thereby furnishes the chief stimulus for the accumulation of capital, also regulates in a great degree their tendency to increase in number. It is natural that it should be so: other things being equal, a man's condition as married or single, and the size of his family, are decisive of his worldly fortune. If his ambition is awakened by a fair prospect of obtaining wealth and rising in society, he will become prudent not only in his expenditures, but in contracting any relations which may become a burden to him, — which may impede his efforts to rise, and may even tend to depress him in the world. In a normal state, then, *the inclination of people to marry is controlled by their opinion of the effect which marriage will have upon their position in life.*

The eldest son in a wealthy family, where the right of primogeniture prevails, will marry, because his future is secure: whatever may happen, a fortune is secured to him against the effects even of his own imprudence. The miserable laborers on his es-

tate, who do not taste meat more than once in a month, will marry because *their* future is secured in another way. They have touched bottom; nothing can sink them in the world, and no degree of prudence or self-denial can ever raise them above a laborer's estate. Their children, it is true, may starve, or die of diseases induced by insufficient or improper food. But excessive misery creates recklessness and despair; they who have no hope or fear cannot be expected to deny themselves the only alleviation of wretchedness of which their state is capable.

The younger sons in noble or wealthy families, if the patrimony falls exclusively to the eldest, generally remain single, or marry late in life, as an early connection of this sort would be certain degradation; at any rate, they could not maintain the style of living to which they have been brought up. Now, as the marriage of only one person out of a family cannot do more than keep up the number in the class to which they belong, and often may not effect even that, these families constantly tend to die out; and if it were not for promotions to their rank from the middle classes, the upper orders of society would gradually disappear. Of the 216 Barons who sat in the English House of Lords in 1854, the peerage of all but 30 had been created since 1711; and 127, or considerably more than half of the whole number, had been admitted to the peerage since 1800. Royal families are still more prone to die out than the families of noblemen; from the line of succession to the English throne, the families of the Plantagenets, the Tudors, and the Stuarts have already disappeared; and the house of Brunswick, saving that branch of it the title of which is transmitted through a female, exists by a very slender tie, and will probably soon be extinct. The history of the Bourbons and several other royal families in Europe is of a similar character. But the principle is, perhaps, most strikingly exemplified among the landed gentry of England, whose continued and increasing opulence is chiefly to be attributed to this cause; for the diminution of their numbers, of course, tends to the concentration of their estates.

In the order of Providence, there is a natural check to the excessive accumulation of property in the hands of a few, and to the consequent debasement and misery of the multitude. This natural corrective, when not counteracted by unwise laws, tends

effectually to equalize the distribution of wealth, so that not many persons can be brought to extreme destitution, except by their own obvious fault. This check exists in the very circumstance to which the English Political Economists are fond of attributing the whole evil, — *the natural multiplication of the human species.* Property in the hands of an individual unquestionably tends to accumulate; one who has both money and industry can make greater gains than one who depends on industry alone. But, from the shortness of human life, an individual can hold this property only for a brief period of years. When he dies, it descends to his offspring; and by the law of nature, as they are all equally near to him, it is equally divided among them. When this law is not abrogated by human legislation, — that is, where the right of primogeniture and laws of entail do not exist, — it causes so frequent a distribution of estates as effectually to overcome the tendency of capital to accumulate, or to continue in a single line of heirs. No sooner is wealth heaped up than it is parcelled out again, and a constant circulation is thus maintained, which sends the life-blood of capital into every part of the body politic. The faster the Population increases, the more rapidly does this corrective of the accumulation of property operate; for the greater the number of heirs, the more minute is the division of the parent's wealth.

In the intermediate conditions of life, the frequency of marriages still depends on the same rule, though its operation is affected by the general circumstances of the country, and by the particular position of individuals. In a newly settled region, children are a help to the parents' advancement, because labor is so valuable; hence the rapid advance of Population in the frontier States of our own Union, — an advance which immigration alone does not account for, though a considerable part of it is certainly attributable to this latter cause. In a more thickly populated country, children are a hindrance, from the difficulty of establishing them in an equal position of life with their parents. But even in this case, those who are in easy circumstances will marry, while those who can but just maintain themselves in the condition of life in which they were born will often remain single. This last case is that of the peasantry of many countries of Continental Europe, who cultivate their own little farms, and are perpetually admonished by the moderate size of their properties, that any in-

crease of their number must lead, not indeed to starvation, but to the forfeiture of their position as land-owners. Thus, in Switzerland, which is, in the main, a country of small proprietors, the Population increases so slowly, that, at its present rate, it is estimated that it would not double itself in less than 227 years. In France, where also the land is cut up into very small estates, but where the peasantry are less prudent, less disposed to make calculations respecting the future, than the Swiss, the estimated period of duplication varies from 115 to 138 years.

The general effect in the Old World, then, may be thus stated, — that the numbers of the poor increase most rapidly, of the middle classes more slowly, and of the upper or wealthier ones, either not at all, or so slowly as hardly to be perceptible. "By a singular anomaly," says Alison, "the rapidity of increase is in the inverse ratio of the means which are afforded of maintaining a family in comfort and independence. It is greatest when these means are least, and least when they are the greatest." This is strikingly illustrated in Sweden, where the census and the registration of births, deaths, and marriages are taken with reference to the division of the people into three classes. The official returns for 1835 give the following results: — The yearly excess of births over deaths among the persons reckoned as belonging to the nobility was only one for every 1,508. For those who are described as "persons of property and station," the yearly excess was one for every 640; while for the peasantry it was one for every 107. In other words, the rate of increase for the peasantry is nearly six times greater than that of the middle class, and over fourteen times greater than that of the nobles. Thus do the laws of nature itself operate against a permanent or hereditary aristocracy.

If we compare different countries with each other, we still find, in every case, that the lowest classes increase most rapidly, and that the rate of increase diminishes as we ascend in the social scale. But we also observe that this law becomes more prominent and conspicuous according as these social distinctions are more fixed and unalterable, — that is, as they approach the nature of *castes;* and also, it becomes more marked in proportion to the degree of poverty and wretchedness of the lowest class. Thus, we can discern the operation of the law even in this country; where

it is matter of common observation, that laborers, mechanics, small tradesmen, and farmers generally marry at an early age, and have large families; while educated men, members of the professions, and sons of wealthy parents often defer "establishing themselves in life," as the phrase goes, till a comparatively late period. But owing to the general well-being of all classes here, and to the frequency and rapidity of transitions from one class to another, these differences are less obvious than in the Old World.

In France, where the land is minutely divided, and the peasantry are vastly better off than in England, the rate of increase of the population, for ten years, is only 5 per cent; in England it is 15 per cent; and in Connaught, the sink of Irish misery and degradation, from 1821 to 1831, it was as high as 22 per cent. In the province of Ulster, the rate is 14, while in the county of Donegal it rises to 20 per cent. "And this is precisely the county which official reports represent as forming an exception to the general condition of Presbyterian Ulster, and affording an instance of poverty little less extreme than that of Connaught. In the latter province, we find Galway and Mayo, notoriously the two most destitute counties, exhibiting, the one an increase of 27, and the other of 25, per cent." Excluding the effects of emigration, this rate is nearly as high as in the United States; so that the two extremes, of general misery and general well-being, produce very nearly the same effect on the movement of the population, — a fact utterly irreconcilable with the theory of Malthus.

The probable result for our own country may now be very clearly seen. So long as land continues abundant and cheap, and the wages of labor high, so long the Population will continue to increase with great rapidity. Barbarous tribes will die out before its advancing wave, and the desert will be peopled. But as the country fills up, and the wages of labor fall, it will become more difficult to rise from one class of society to another, and the rate of increase will diminish. When the land becomes as thickly settled as Belgium now is, — a result which centuries will be required to accomplish, — the Population will advance as slowly as it now does in Belgium. I see nothing in this prospect which need alarm even those who are most apt to be apprehensive of the future.

Mr. Senior has very happily illustrated the truth, that the

Preventive check upon marriages is the fear, not of lacking the necessaries of life, or of positive starvation, but of being deprived of those comforts and enjoyments which custom has marked out as appropriate for every condition in life, or every rank in the social scale.

"Though an apprehended deficiency of some of the articles of wealth is substantially the only Preventive check to the increase of Population, it is obvious that fear of the want of different articles operates, with all men, very differently; and even that an apprehended want of the same article will affect differently the minds of the individuals of different classes. It appears to us, therefore, convenient to divide for this purpose the articles of wealth into the three great classes of *Necessaries*, *Decencies*, and *Luxuries*, and to explain the different effects produced by the fear of the want of the articles of wealth falling under each class. It is scarcely necessary to remind our readers that these are relative terms, and that some person must always be assigned with reference to whom a given commodity or service is a Luxury, a Decency, or a Necessary.

"By *Necessaries*, then, we express those things, the use of which is requisite to keep a given individual in the health and strength essential to his going through his habitual occupations.

"By *Decencies*, we express those things which a given individual must use in order to preserve his existing rank in society.

"Everything else of which a given individual makes use, or, in other words, all that portion of his consumption which is not essential to his health and strength, or to the preservation of his existing rank in society, we term *Luxury*.

"It is obvious that, when consumed by the inhabitants of different countries, or even by different individuals in the same country, the same things may be either Luxuries, Decencies, or Necessaries. Shoes are Necessaries to all the inhabitants of England. Our habits are such, that there is not an individual whose health would not suffer from the want of them. To the lowest class of the inhabitants of Scotland, they are Luxuries; custom enables them to go barefoot without inconvenience and without degradation. When a Scotchman rises from the lowest to the middling classes of society, they become to him Decencies. He wears them to preserve, not his feet, but his station in life. To

the higher class, who have been accustomed to them from infancy, they are as much Necessaries as they are to all classes in England. To the higher classes in Turkey, wine is a luxury and tobacco a decency; in Europe, it is the reverse. The Turk drinks and the European smokes, not in obedience, but in opposition, both to the rules of health and to the forms of society.

"The question, whether a given commodity is to be considered as a Decency or a Luxury, is obviously one to which no answer can be given, unless the place, the time, and the rank of the individual using it be specified. The dress which in England was only decent a hundred years ago, would be almost extravagant now; while the house and furniture which now would afford merely decent accommodation to a gentleman would then have been luxurious for a Peer. The causes which entitle a commodity to be called a Necessary are more permanent and more general. They depend partly upon the habits in which the individual in question has been brought up, partly on the nature of his occupation, on the lightness or the severity of the labors and hardships that he has to undergo, and partly on the climate in which he lives. The fuel, shelter, and raiment, which are essential to a Laplander's existence, would be worse than useless under the tropics. And as habits and occupations are very slowly changed, and climate suffers scarcely any alteration, the commodities which are necessary to the different classes of the inhabitants of a given district may, and generally do, remain for centuries unchanged, while their Decencies and Luxuries are continually varying.

"Among all classes, the check imposed by an apprehended deficiency of mere Luxuries is but slight. The motives, perhaps we might say the instincts, that prompt the human race to marriage, are too powerful to be much restrained by the fear of losing conveniences unconnected with health or station in society. Nor is Population much retarded by the fear of wanting merely Necessaries. In comparatively uncivilized countries, in which alone, as we have already seen, that want is of familiar occurrence, the Preventive check has little operation. They see the danger, but want prudence and self-denial to be influenced by it. On the other hand, among nations so far advanced in civilization as to be able to act on such a motive, the danger that any given person

or his future family shall actually perish from indigence, appears too remote to afford any general rule of conduct.

"The great Preventive check is the fear of losing Decencies; or, what is nearly the same, the hope to acquire, by the accumulation of a longer celibacy, the means of purchasing the Decencies which give a higher social rank. When an Englishman stands hesitating between love and prudence, a family actually starving is not among his terrors; against actual want, he knows that he has the fence of the poor-laws. But however humble his desires, he cannot contemplate without anxiety a probability that the income which supported his social rank while single may be insufficient to maintain it when he is married; that he may be unable to give to his children the advantages of education which he enjoyed himself; in short, that he may lose his *caste*. Men of more enterprise are induced to postpone marriage, not merely by the fear of sinking, but also by the hope that, in an unencumbered state, they may rise. As they mount, the horizon of their ambition keeps receding, until sometimes the time has passed for realizing those plans of domestic happiness which probably every man has formed in his youth."

CHAPTER IX.

THE THEORY OF RENT.

RENT is the compensation paid to the landlord for permission to hold and use a certain portion of land. As the real ownership is sometimes divided between several parties, — for instance, between the government, the nominal landlord, and the occupier, — several sorts of Rent have come to be distinguished from each other, and called by different names. Moreover, Rent was not always paid in money, but sometimes by rendering military services, sometimes by performing menial or agricultural labor, and sometimes in kind, — that is, by a given portion of the actual products of the soil. A fixed charge payable annually forever, without regard to the greater or less productiveness of the soil, is more properly considered as a case of coproprietorship than of Rent; the owner of one

undivided fourth of the property, for instance, instead of receiving each year one fourth of the net annual product, whatever it may be, may have this share *commuted* into a fixed sum payable annually forever, such payment being then called a *Rent-charge*. So, also, when the government is sole owner or a coproprietor of the soil, what it annually receives is more properly regarded as a tax, than as Rent. A land-tax not liable to be altered in amount — and such is the case with the land-tax in England — is properly a Rent-charge.

A *quit-rent* is a fixed sum, — usually but a small part of the net annual product, — annually paid by the possessor, as one of the coproprietors, to his feudal lord as the other coproprietor. It is so called because it *quiets* the claim of the lord, or makes the occupier *quit* of him. The labor, whether fixed or indeterminate in amount, due to the lord from servile cultivators of the land, might be called a *serf-rent*, as it was really a compensation for the serf's tenement or holding of ground, or for his right of subsistence on the estate to which he was attached. *Metayer rent* is a division of the actual products of the farm between the cultivator and the land-owner, such as is practised in Tuscany and other portions of southern Europe; it corresponds to our New England mode of letting a farm "on shares." *Rack-rent* is the largest sum that can be obtained for the annual hire of the land, when it is offered to tenants in free competition, as by auction.

Cottier rents are paid in Ireland by peasant farmers, who hire small patches of land, each being barely sufficient for the subsistence of a single family; and even these small parcels of land, except where the custom of *tenant-right* prevails, are usually rack-rented. The *conacre* is a patch of land already manured, which the Irish agricultural laborer is allowed by the farmer to cultivate for the season, on paying therefor a Rent of several pounds an acre, this Rent being worked out in labor at a money valuation. *Ryot-rent* is the portion of the annual product which, in India, is paid by the peasant cultivator to the sovereign, as the proprietor of the ground. *Farmer-rent*, which is the usual meaning of the word *rent* in England, is the covenanted annual sum paid to the landlord by one who furnishes all the capital, and employs all the laborers, for cultivating a tract of land varying in size from a dozen, up to two or three thousand, acres. It should be added

that, in England, the word *farmer* means one who pays Rent for the land that he cultivates; while, in this country, it means one who cultivates his own land. *Ground-rent* is paid in cities and towns for building-lots, when mere space or room is wanted, the quality of the soil being a point of no importance.

The supposition, which is the basis of Ricardo's theory, that the occupier is free to remove from bad to good, or from dearer to cheaper land, is true only in a few of these cases of Rent. In forming his theory, Ricardo had almost exclusive reference to the *farming* system of England, and regards the farmer as a capitalist who looks only for a due return of profits upon his investment. From the whole sum paid to the landlord, he deducts ordinary profits on all the capital ever laid out in permanent improvements on the land; and the remainder he considers to be Rent properly so called. According to this view, Rent is what is paid for the original and inherent powers of the soil, before any capital is laid out upon it, or any labor bestowed on its cultivation. But in the case of most farming-land, it may be doubted whether, after such a deduction of profits, there would be any remainder; that is, in Ricardo's sense, whether the land yields any Rent. Ordinary tillage-land may be regarded as originally nothing but a matrix for the investment of labor and capital. Reckoning up the whole cost of first clearing the ground, draining it, carrying off rocks and stones, transporting to it soil and mineral manures, fencing it and planting trees, building farm-houses, etc., it would probably be found that ordinary profits on the total of these expenditures would absorb the whole sum now paid annually for the use of the farm. But the theory in question needs to be explained and tested at greater length.

The entire science of *English* Political Economy may be said to be built upon three leading theories; — that of Adam Smith concerning Free Trade, that of Malthus in regard to Population, and that of Ricardo in regard to Rent. They are intimately connected with each other; and a full appreciation of the mixture of truth and falsehood which they contain would tend to clear the science of its local, English character, and to fit it for universal acceptance and utility. Having considered the first incidentally, and the second at some length, we may pass to an examination of Ricardo's doctrine.

The permanent or average value of everything not limited in quantity depends on its Cost of Production, that is, on the amount of labor required to produce it. But the Cost of producing some commodities cannot always be reduced to the same uniform standard: a few persons may enjoy certain facilities, some peculiar implements or patented machinery, *which other persons cannot obtain,* and by the aid of which they can produce the article at less cost, or with a smaller amount of labor. They cannot, however, thus produce enough to satisfy the whole Demand; and therefore, other persons must produce some at the expense of more labor. In such a case, the Price of the commodity will be determined by the cost of *that portion which is produced with the greatest difficulty;* for, unless the Price indemnified *these* producers, they would give up the business, and the necessary amount of the article could no longer be had. But the Price having risen to this point, the persons producing the article more easily, by the aid of a machine or implements of which they have a monopoly, would receive an extraordinary profit. This whole *extra profit* may be called *Rent*, a phrase which obviously includes the profits of a patentee of a useful machine, as well as those of a landholder. If the land or the machine were not subject to monopoly, — if it did not have a scarcity-value, — no Rent would be paid for the use of it, any more than for the use of the ocean.

The produce of land, according to Ricardo, is obtained under circumstances precisely analogous to those here supposed. The supply of grain or cattle may be indefinitely increased, by employing more capital and labor; but it cannot always be increased *in the same proportion* to the capital and labor expended. In the manufacture of cottons, woollens, and silks, double the capital, and you will usually double the amount produced. But in agriculture, this is not the case. The most eligible land is first taken up, — either that which is most fertile, or that which is nearest to market, or both. We will call this portion *land of the first class.* For a while, this produces enough to satisfy the demand. But as the Population increases, more grain is called for; and, because there is no more land of the first class to be had, the producers are obliged to take *land of the second class*, either that which is less fertile, or farther from market, or both; the demand having previously outrun the supply, the Price has risen enough to remu-

nerate them for employing capital and labor on this less promising soil. For a while, this additional supply suffices; but then Population again advances, the demand for food is increased, the Price rises again, and as a necessary consequence, *land of the third class* is brought into cultivation. And so on, indefinitely. At each step, there is a necessary enhancement of Price, and therefore of Profit, to those who work the land of higher quality, or of more easy access. The Price of the grain and cattle which are brought to market must always be high enough to pay those who work the poorest land in use; otherwise, they would quit the employment, and the land would fall out of cultivation. But this Price, of course, will give a larger profit to those who hold the land of the next higher class, and a still larger one to the owners of land of the first class. And as still inferior lands come into use, these profits must become yet larger. The result is, that the amount of Rent for land must always depend on the degree of superiority of that land over the least fertile, or least eligible, ground which is cultivated at all, and which, because it is the poorest, yields no Rent at all.

By the original constitution of nature, land is of various degrees of productiveness. One acre, with a certain quantity of labor bestowed upon it, will yield forty bushels of wheat; another acre, with the same amount of labor, will yield but thirty bushels; a third acre, still requiring the same labor, gives but twenty bushels. Now, suppose that these three acres of land constitute the whole stock of a family of persons living upon an island of this extent, and cut off from intercourse with the rest of the world by the intervention of a wide waste of ocean, and by their lack of ships or boats. If this family consisted of but five persons, we may suppose that one acre would furnish them grain enough, and, of course, they would choose the most productive land. There being land of this quality, enough for all, no portion of it would yield any Rent.

But if three persons should be added to their number, there would be a necessity of cultivating the next best acre of land; and to the persons undertaking to cultivate it, it would amount to the same thing whether they took without Rent the land yielding thirty bushels to the acre, or paid a Rent, equal in value to ten bushels of grain, for the land producing forty bushels to the acre.

The increase of Population, then, rendering it necessary to have recourse to land of inferior fertility, would cause land of the first class to pay Rent; and this Rent would be exactly proportioned to its degree of superiority over the worst land in cultivation, which yields no Rent. A farther accession of three individuals would oblige the community to till the third acre, which yields but twenty bushels; and one might have his choice between taking this land without Rent, or paying ten bushels a year for land of the next best quality, or twenty bushels a year for the most fertile spot. Always the worst land in cultivation pays no Rent; and all other land pays Rent in proportion to the degree of its superiority over this poorest land.

Natural fertility is but one of the circumstances that give value to land, or cause it to pay Rent; nearness to market, or any other natural quality, operates in precisely the same way. If all the land produces the same quantity to the acre, and if the produce of one acre can be sold on the spot, while it costs the value of ten bushels of grain to carry the produce of the second acre to market, and of twenty bushels to transport that of the third acre, then the first acre will bear a Rent of twenty bushels, the second a Rent of ten bushels, and the third no Rent at all, because it produces only enough to pay ordinary Wages and Profits, — there is no surplus for Rent. The increased demand of towns, occasioned by the increase of their Population, not only tempts the cultivators in their vicinity to improve their lands more highly, but frequently causes large portions of their supplies to be brought from a great distance. Hence it sometimes happens that the advantage of vicinity more than counterbalances the disadvantage of comparative barrenness, so that lands of inferior fertility, in the immediate environs of a large town, yield a considerable Rent, while much richer land, at a distance from good markets, yields little or perhaps no Rent. As vicinity to a town is a cause of Rent, so vicinity to a road, navigable river, or canal, by diminishing the expense of carriage to some great market, may have a similar effect.

Observe, also, that the theory still holds good, whether the increase of Population constrains us to take poorer or more distant land, hitherto neglected, into cultivation, or to expend more capital and labor upon the land already in tillage, with a view of

increasing its product. For the additional capital thus invested will not yield a return proportionally great with that of the capital which was first employed. If, for instance, the first thousand dollars spent upon a farm will cause it to yield at the rate of thirty bushels to the acre, the expenditure of a second thousand dollars upon it may raise the crop, perhaps, to forty bushels per acre; but it certainly will not double the crop, or make the yield to be sixty bushels, as it ought to do if the second application of capital were equally remunerative with the first. Then the second application of capital will not be made till the increase of Population has caused the Price of grain to rise so high, that this second thousand dollars will produce as large profits as capital applied in other ways. And when this second thousand dollars will yield ordinary profits, it is obvious that the first thousand dollars, applied under circumstances much more advantageous, will yield much more than the ordinary profits. The difference between these two rates of profit is the Rent of the land. Thus, always, just as there are more mouths calling for more food, either poorer or more distant land must be taken into cultivation, or more capital must be applied with perpetually diminishing returns, or at rates of profit growing successively less and less.

It is true, as the theory admits, that the necessity of having recourse to inferior lands, or of applying more capital with constantly diminishing returns, is *postponed* by the improvements that are made, from time to time, in the tools and processes of agriculture, which enable us to obtain more food from the same quantity of land without a proportionate increase of capital or industry. But the evil day is thus only postponed, not entirely removed. It is impossible that agricultural improvements should keep pace for any long time with the increase of the Population; for they are limited in their nature and extent, while the prolific power of the human race is unbounded. These improvements also, by lessening the price of food, stimulate the increase of numbers, and thus, in one way, tend to increase the evil, which they do but partially check in another. When the Price of corn is reduced, through improvements in agriculture, says McCulloch, "all classes obtain greater quantities than before in exchange for their products or their labor; hence the rate of profit, and consequently the accumulation of capital, are both increased; and this increase, by causing

a greater demand for labor, and higher wages, leads, in the end, to an increase of Population, and, consequently, to a further demand for raw produce, and an extended cultivation. Agricultural improvements obviate, sometimes for a lengthened period, the necessity of having recourse to inferior soils; still, however, their influence in this respect cannot be permanent. The stimulus which they, at the same time, give to population, and the natural tendency of mankind to increase up to the means of subsistence, are sure, in the long run, to raise prices, and, by forcing recourse to poor lands, Rents also."

This is a brief, but, I hope, sufficiently clear and fair exposition of Ricardo's celebrated theory of Rent. I call it Ricardo's theory, though it was first promulgated by Dr. Anderson, of Scotland, as early as 1777. It then attracted hardly any notice, and was subsequently forgotten. It was afterwards rediscovered, almost simultaneously, by Sir Edward West and Mr. Malthus, while Mr. Ricardo has most sucessfully developed it, applying it to the theory of Profits, and to the solution of many other problems in Economical science. Malthus was certainly put upon the track of it by his own theory of Population, of which it is an obvious supplement. As it might be objected to the Malthusian doctrine, that the danger which it contemplated was prospective and distant, the world certainly not being overpopulated *as yet* in all its parts, this theory of Rent comes in to fill up the deficiency in our heritage of woe, and to prove that the increase of Population, to which the human race is always tending, is *always* an evil; — that, for every new life which is created, some new restraint, privation, or loss is imposed upon those already in being. "Granted," these prophets of evil may exclaim, "that there is not as yet an absolute deficiency of food; yet every birth tends to raise the price of the stock of sustenance which we have, because it obliges us to cultivate still poorer land, and to apply labor and capital with constantly diminishing returns, — or to work at smaller Wages, and apply capital at smaller Profits." Mr. Mill states the legitimate inference from these two theories of Population and Rent clearly and strongly, when he says, that "a greater number of people cannot, in any given state of civilization, be collectively so well provided for as a smaller."

I do not accept these gloomy views of the course of nature and

of Providence. I do not believe that any increase in the number of the civilized, Christian inhabitants of the earth is an evil, or that it entails any evil upon coming generations. The social evils which now unquestionably exist, and which are traced by such Economists as Malthus, Ricardo, and McCulloch, to an excess of population, appear clearly imputable to defective, unnatural, and unjust institutions of man's device, and admit of remedy without shaking the pillars of social order, or impiously calling on God to send war, inundations, or pestilence, wherewith to scourge mankind into a sense of their duty to restrain their natural inclinations, and destroy the sources of domestic happiness. Having established these points against the doctrines and the calculations of Malthus, I proceed to show that there is nothing in this theory of Rent which ought to shake our confidence in them.

And first, I would call attention to the fact, that both these theories are of English origin, and were first suggested, as is obvious, by observation of those evils in the social condition of England, which only within the present century have become of crying magnitude. These evils have manifested themselves in the only country in Europe in which all the land, the great food-producing machine, has come to be owned by so small a class, that the great body of the community seem to have no part or lot in it; while, at the same time, those ancient patriarchal and religious institutions, which certainly did much to mitigate the effects of an undue aggregation of landed property in the hands of a few, have entirely died out or been destroyed. It is the boast of the English, that the relations of vassal and lord, clansman and chieftain, serf and master, no longer exist among them. The English barons no longer support each an army of retainers to be their followers in war, and to keep up their feudal state. English prelates and monks no longer dispense open-handed hospitality and charity at the gates of richly-endowed monasteries. These institutions of the Middle Ages have been destroyed in England, root and branch; but their fall has not, as in many parts of the Continent, caused the landed property once aggregated in their support to be parcelled out again, with great minuteness and some approach to equality, among those who were formerly maintained by it in rude plenty, though not in peace or perfect freedom. Feudal relations have been done away, but the magnitude of feudal estates has not been

diminished. The Highland chieftain has banished his clansmen from their hereditary possessions and hereditary dependence on him, has compelled them to emigrate or starve, has turned his vast Highland estate into sheepwalks and deer-parks, and has himself become a wealthy English nobleman. A cool pecuniary calculation of profit and loss has induced him to take this step. The same motive has caused the great English landholders to depopulate their estates, driving the rural tenantry into the towns and manufacturing districts, where they must become operatives or paupers. The consequence of this aggregation of landed estates, and this mode of deriving the largest possible Rent from them, has been a fearful increase of pauperism, and a general apprehension lest the tax for the support of the poor should become so large as eventually to beggar the rich also.

Systems and theories of Political Economy suggested by circumstances so anomalous and peculiar as these, or contrived with a view to explain and justify them, are not likely to be applicable to other countries, or to contain many general truths. England is the only country in the world in which the laboring class is entirely dependent on the wages of hired labor: on the Continent, in most instances, they have a small property on which they can subsist, though poorly, in seasons when they cannot add to their scanty incomes a small amount of Wages by obtaining employment elsewhere for time not needed at home. If they have not a little land which is entirely their own, they have a sort of prescriptive right to cultivate the land of others, on certain fixed terms, either as *métayers*, giving all the labor for a portion of the produce, or as feudal subjects bound to the soil, and having a right of maintenance from it. In neither case are they driven into the labor-market as their only refuge from starvation, there constantly to depress wages by their frantic competition for employment, or to give up the struggle in despair by throwing themselves upon compulsory public charity.

Ricardo's theory of Rent was discovered or invented with reference to the anomalous state of things in England. It is an attempt to establish as a law of nature the alleged fact, that an increase of the numbers of a people, *under any circumstances*, is an evil, because it creates an additional demand for food, which can be met only by having recourse to poorer or less advantageously

situated soils, or by applying more labor and capital, with constantly diminishing returns. It is abundantly confuted by facts, and can easily be shown to be unsound in principle. The assertion of Mr. Mill, "that a greater number of people cannot collectively be so well provided for as a smaller," becomes absurd when applied to an infant colony, established in a vast territory, on a virgin soil. Who can seriously maintain, that an increase of Population is an evil in British Australia, or in the great valley of the Mississippi? It might as well be said that the people of Ohio, Indiana, and Wisconsin are straitened for want of room, as that their proportionate supply of food is lessened by the increase of their numbers. Among them, surely, it is apparent that an increase of Population is an increase of productive power, and hence a proportionate increase of the surplus of grain and other articles of sustenance, which, after satisfying all their own wants in the amplest manner, they are able to send off to satisfy the wants of other nations. The average price of flour in the Philadelphia market, between 1800 and 1810, exceeded eight dollars a barrel; from 1810 to 1820, the average was about nine dollars. The population of this country in 1800 was but little over five millions; in 1820, it was somewhat less than ten millions. It is now more than forty millions. And is the nation, in consequence of this vast increase of numbers, less bountifully supplied with food? On the contrary, the price of flour and other breadstuffs has greatly diminished, and we are supplying the world with them. The average price of flour in 1869 was less than six dollars (in gold).

Our export of breadstuffs and other articles of food in 1868 exceeded 100 millions of dollars in value; and in case of any failure of the crops in Europe, it could probably be raised to 130 millions, without materially lessening the enjoyments of the people of this country, or raising the price of grain to a point beyond the reach of the poorest class of the population. Do these facts afford any evidence that the forty millions, who now constitute the American nation, are not so well provided for as the five millions who occupied their place only seventy years ago? Are they not rather a demonstration of the principle that the increase of numbers is an increase of productive power, and a consequent proportionate increase of the means of subsistence, — of the necessaries, comforts, and luxuries of life?

But it may be said that America is an exceptional case, and that we have no right to argue from the fortunate circumstances in which we are placed to general conclusions which would be wholly inapplicable in other portions of the world. We answer, that the facilities afforded by commerce now really connect all the civilized nations of the earth into one great community, the supply of all articles being made everywhere proportionate to the demand and to the ability to pay for them. Grain and other articles of provision are matters both of foreign and domestic traffic; every country can obtain an abundance of them, though her own soil may be entirely barren. Great Britain has no difficulty in obtaining a supply of cotton, though the cotton-plant will not grow in the British Isles. Grain and other provisions can be purchased even with greater facility than cotton and tobacco, or coffee and tea; for these latter articles can be raised only in a few favored countries, while the market of the whole world is open for the sale of food. It is found more profitable to devote the larger portion of the labor of the British Empire to commerce and manufactures, and to buy a portion of the food that is required, than to cultivate the soil to the full extent of which it is capable, and thereby raise the whole stock of provisions. If a given amount of labor employed in spinning yarn and weaving cloth will produce enough value to buy and import two bushels of grain, while, if devoted immediately to tilling the ground, it will raise only one bushel, it is certain that the labor will be given to manufactures, and not to agriculture; and the deficiency of food thus created (if it can be called a deficiency) will afford no reason for impeaching the bounty of Providence, and no cause for fear lest the increase of the Population should outstrip the increase of the supply of food.

We say, then, that this theory of Rent, being inapplicable and unsound in the case of America, is *consequently* untrue in its application to Europe generally, and even to England. An increase of the English population *does* create a larger demand for food. But this demand does not oblige the people to have recourse to the poorer soils in order to enlarge the crops, nor even to apply more capital with less profit to the soil already under tillage; it simply obliges them to import more food from America and the countries on the Baltic and the Black Sea. And the supply which these countries may afford is indefinite; the only reason why they do

not *now* send more corn to England, is that England needs no more. The possible supply of wheat and maize from the back country of the United States defies all calculation; it is kept dammed up there now, because the producers know, if it were thrown upon the market at once, that it would sink the price below the cost of production. But, because it exists in excess, if the capacity of the market were increased the supply might be indefinitely enlarged, without any material or even perceptible enhancement of price. There is no more risk that our back country will be drained of wheat, than that the great Mississippi will drain it of water.

Thus much for the contradiction of the theory by the facts in the case. The refutation of it in principle, or by abstract reasoning, is equally easy.

And first, it is to be observed that the natural fertility, or what Ricardo calls the original and inherent powers of the soil, as an element of Rent, are wholly insignificant in comparison with nearness to market. The most barren soils in the world, even hard rock, pure sand, or stagnant marsh, should a populous and wealthy city spring up in the neighborhood, will yield Rent, often a large Rent, because they afford a field which human industry and skill can convert into a productive garden. On the other hand, soil of the greatest natural fertility, if it be far distant from any market for agricultural produce, will command no Price and yield no Rent. For instances of the former class, take the larger portion of the soil of Belgium and Holland, much of which has been literally reclaimed from the sea. Yet these broad districts of sea and sand are now the gardens of Europe, shaming even the wonders of English farming by the fulness of their crops. Two and a half acres of them yield food enough for a family of five persons.

For examples to corroborate the other branch of the statement, we have only to look at the remote West of our own fair land. Thousands of square miles of the most productive land in the world, in Kansas and Nebraska, are even now lying tenantless, because they will not command the government price of only $1.25 an acre. And even in the more thickly settled States of the great Mississippi valley, many a broad region yet remains waste in the ownership of the government, far superior in natural advantages to the soil of Belgium in its original condition, and for which, not-

withstanding, no one will give this almost nominal price. The reason is, that there is not market enough in the neighborhood to take off the surplus agricultural produce. If the population should increase in numbers, so as to require more food, even though the price of the food should not be increased, this waste land would soon be purchased and reduced to tillage.

This point being established, then, — that the original fertility of the soil is an element of little or no importance in the theory of Rent, — we have only to consider that portion of Ricardo's doctrine which relates to comparative distance from the market. He maintains that land bears Rent in proportion to its nearness to the place where agricultural produce is needed and consumed; and that the increase of population, consequently, is an evil, because the community are obliged to send farther and farther off for their supplies. Here is the great and obvious fallacy, — of supposing that *the population, as it increases, necessarily remains stationary, or on the same spot*, so that the grain must be brought to it at a price enhanced by the cost of transportation. We answer, that, *instead of the food coming from a distance to the population, the population go to the food.* The nation expands over more space as it increases in numbers. The tide of emigration sets towards the unoccupied lands in a current the velocity and depth of which are proportioned to the increase in the number of the people. The new-comers, the addition to the nation, instead of raising the price of food for themselves and their predecessors, actually cheapen it. As they spread themselves over the waste lands, and reduce them to cultivation, they not only raise food enough for themselves, but they increase the surplus which is sent to market, to be there exchanged for manufactures and the produce of foreign climes.

This is exemplified in the recent history of New England. The average rate of increase of the population here, during the last forty years, has been less than 16 per cent for every ten years, while for the whole United States it has been about 34 per cent, or over twice as large. Why is this, since the excess of births over deaths is about as great in New England as in any other portion of the country? The answer is obvious. One half of those who are born here, and survive to the age of maturity (one half of the surplus, I mean, over those who are needed to com-

pensate for the deaths), emigrate to the West, and there take their part in settling the wild lands and reducing them to tillage. And so successful have their labors been, that the price of grain and other agricultural produce has not risen in proportion to the increase of our numbers, as it ought to have done if Ricardo's theory were true, but has fallen since 1830, though since that time our population has been more than tripled, and though our exports of provisions also have increased to an immense extent.

We come, then, to a theory of Rent which differs very widely from that of Ricardo. *Rent depends, not on the increase, but on the distribution, of the population.* It arises from the excess of the *local* demand over the *local* supply, and is therefore ultimately determined by the expense and inconvenience of bringing the food from a distance, or by the discomforts and privations which attend the removal of a portion of the people to a new home. The migration is not necessarily directed to another country; the more remote and less populous counties or States may receive the surplus population of the metropolitan region and the manufacturing districts, and an additional supply of food will then be obtained from the agricultural labor of those who have thus found a new home.

An increase in the numbers of the people may thus be followed by more than a proportional increase of the means of subsistence. The price of food, then, will not vary in proportion to the Rent; on the contrary, the Rent may increase indefinitely while the price of food is diminishing. A livelihood may be more easily and cheaply obtained by commercial or manufacturing industry in a great city or a populous region, notwithstanding the considerable outlay required for Rent, than by tilling the ground in a district where land may be hired for a trifling sum, or even purchased at a nominal price; and still the extension of agriculture may be so great, as the forest is cleared up and the prairie planted, that corn and flour may be bought by the inhabitants of cities more cheaply than ever.

Not only in America, but in Great Britain and Ireland, and indeed throughout the civilized world, it is notorious that Rent is produced and increased, or, in other words, that value is given to the land, by creating a market for agricultural produce in the neighborhood of the land whence that produce is obtained; that

is, by collecting a town or civic population, engaged in manufactures and commerce, who have the means to buy the wheat. By *collecting* such a population, I say; not by *creating* one, or by making the total number of the whole people larger, as Ricardo's theory requires. It is not the demand for a larger supply of food, but the altered locality of the demand, and the altered habits and occupations of the people, which swell the value of the land and enhance the Rent.

And, conversely, the population might be considerably enlarged, and more food consequently be required, at the very time when Rents were falling throughout the country. This would be the case if the process of dispersion should be going on at the same time, — the people leaving the manufacturing towns, and spreading themselves over the country, so that each family would come nearer the particular spot of land that feeds it. This is the evil often experienced here in America, where several towns and smaller cities upon the Atlantic coast, which were prosperous and wealthy up to the close of the war in 1815, have since ceased to advance, and even retrograded, in riches and population. Many of their citizens joined the great migration to the Western States, because the policy of the national government was no longer favorable to manufactures, the fisheries, and commerce. Of course, as these towns dwindled, the value and the Rent of farms in their immediate vicinity were also depressed, and agriculture, instead of advancing, visibly retrograded, the prices of all kinds of rural produce being kept down by the abundant supplies which began to arrive from the newly cleared regions at the West. Yet, all this while, the total population of the United States was increasing with unparalleled rapidity, and, if Ricardo's theory were true, Rent ought to have advanced *pari passu*.

To illustrate the opposite result, — the rise of Rents and of the prices of agricultural produce produced by the concentration of the people in manufacturing districts and towns, — I might refer to such obvious instances as the neighborhood of Lowell in Massachusetts, Manchester in New Hampshire, Rochester in New York, Pittsburgh in Pennsylvania, and many others, the rapid and immense increase of which in population and wealth seems almost fabulous. It is the rapidity of this increase, indeed, which proves that the result is attributable to bringing the people together, and

not to the natural growth of the total population. It cannot have been merely from the increased number of births, that Rochester, for instance, which had a population of only 1,500 in 1820, numbered over 9,000 inhabitants in 1830, over 20,000 in 1840, and over 36,000 in 1850; or that Lowell, whose population in 1830 was about 6,500, numbered over 33,000 in 1850. For illustrations from Great Britain, in which country alone does Ricardo's theory of Rent seem even plausible, I need only bring together a few passages from an able essay by a French writer, M. de Lavergne, on the "Rural Economy of England."

Up to the time of Arthur Young, he says, "the English farmers had, like all those of the Continent, worked with little view to a market. Most agricultural productions were consumed on the spot by the producers themselves; and although in England more was sold for consumption beyond the farm than anywhere else, it was not export which regulated production. Arthur Young was the first who made the English agriculturists understand the increasing importance of a market; that is to say, the sale of agricultural produce to a population not contributing to produce it. This non-agricultural population, which up to that time was inconsiderable, began to develop; and since then its increase has been immense, owing to the expansion of manufactures and commerce. Everybody knows what enormous progress the employment of steam as a motive power has effected in British manufactures and commerce during the last fifty years. The principal seat of this amazing activity is in the northwest of England, the county of Lancaster, and its neighbor, the West Riding of Yorkshire. There Manchester works cotton, Leeds wool, Sheffield iron, and the port of Liverpool, with its constant current of exports and imports, feeds an indefatigable production."

"One third of the English nation is concentrated on these two points, — London in the south, and the manufacturing towns of Lancashire and the West Riding in the north. These human ant-hills are as rich as they are numerous. What becomes of the immense amount of wages paid to this mass of workmen every year? It goes, in the first place, to pay for meat, beer, milk, butter, cheese, which are directly supplied by agriculture, and woollen and linen clothing, which it indirectly furnishes. There exists, consequently, a constant demand for productions, which

agriculture can hardly satisfy, and which is for her, in some measure, an unlimited source of profit. The power of these outlets is felt over the whole country; if the farmer has not a manufacturing town beside him to take off his produce, he has a port; and should he be distant from both, he brings himself into connection with them by canal, or by one or more lines of railway." Such is the influence, upon production, of an inexhaustible outlet, that these fields are rented at an average of 30 *s.* ($ 7), and in the immediate environs of Liverpool and Manchester, arable land lets as high as £4 ($ 20) an acre. There are not many soils in the most sun-favored lands which can boast such rents.

"It is pretty generally believed that pauperism prevails more in the manufacturing than in other districts. This is quite a mistake." It appears from the official returns, that in the manufacturing counties "the poor's rate is about 1 *s.* in the pound, or 3 *s.* to 4 *s.* a head, and the number of poor 3 to 4 per cent of the population; whilst in the agricultural counties it exceeds 2 *s.* in the pound, or 10 *s.* a head, and the number of paupers is from 13 to 16 per cent of the population. The cause of this difference is easily understood; — the number of paupers and the cost of their maintenance increases as the rate of wages becomes lower. Although the working population be three or four times more dense in the manufacturing than in other parts of the country, its condition there is better, because it produces more."

"If we transport ourselves to France, to the most backward departments of the centre and south, what do we there find? A thinly scattered population, — at the most, not exceeding on an average one third that of the English, — one head only, in place of three, to five acres, — and that population almost entirely agricultural; few or no large towns, little or no manufactures, trade confined to the limited wants of the inhabitants; the centres of consumption distant, means of communication costly and difficult, and expenses of transport equal to the entire value of the produce. The cultivator has little or nothing to dispose of. Why does he work? To feed himself and his master with the produce of his labor. The master divides the produce with him, and consumes his portion; if it is wheat and wine, master and *métayer* eat wheat and drink wine; if it is rye, buckwheat, potatoes, these they consume together. Wool and flax are shared in like manner, and

serve to make the coarse stuffs with which both clothe themselves. Should there happen to remain over a few lean sheep, some ill-fed pigs, or some calves, reared with difficulty by over-worked cows, whose milk is disputed with their offspring, these are sold to pay taxes.

"In this state of things, as there is no interchange, the cultivator is obliged to produce those articles which are most necessary for life, — that is to say, the cereal grains: if the soil yields little, so much the worse for him; he has no choice, he must produce corn or die of hunger. Now, on bad land, there is no more expensive cultivation than this; even on good, if care is not taken, it soon becomes burdensome; but under these conditions of farming, no one thinks of taking account of the expense. The labor is not for profit, but for life; cost what it may, corn must be had, or at all events, rye. As long as the population is scanty, the evil is not overwhelming, because there is no want of land: long fallows enable the land to produce something; but as soon as the population begins to increase, the soil ceases to be sufficient for the purpose; and a time soon arrives when the population suffers severely for want of food."

That Rent depends upon the distribution, and not upon the increase, of the population, may be easily seen by putting the extreme case. Suppose the inhabitants of a country distributed with perfect evenness over its territory, each family residing upon the centre of the spot, say ten or twelve acres in extent, which feeds it. While the population is small, a district of limited extent may supply homesteads for all the inhabitants. As the people increase in number, suppose additional lots, upon the outskirts of the former settlements, to be laid out for the new families. It is not necessary that the soil should be of equal fertility throughout the land, so that all the farms should consist of the same number of acres. In the more productive districts, six or eight acres may suffice for a family; in the less favored ones, sixteen or twenty may be needed. The only essential point is, that each family should have enough land, and no more than enough, for its own wants.

Under these circumstances, it is evident, the land would not yield any Rent; — there would be enough for all. Monopoly, or exclusive appropriation, being impossible, a Price would no more

be set upon the land, than upon the air or the light. No one would think of charging Rent, any more than of levying tolls for the right to cross the broad ocean. And it is conceivable, that this state of things should exist over the whole earth, and should continue for many centuries to come. Islands of limited extent, like the British Isles, might indeed be filled up, or completely occupied, the people having become so numerous that no more land could be had for the new families. In such case, the new families would have to emigrate, as they are now actually obliged to do; but they would find abundance of unoccupied land in America, Australia, and elsewhere.

But if the population of one country, or of the whole globe, were thus distributed with perfect evenness, each family residing upon the spot that furnished it with food, though there would be no Rent, it is obvious that there would be little or no Division of Labor, and, consequently, no progress in civilization and the arts, and no advancement in opulence. Mankind would begin to retrograde to a condition as low as that in which any portion of them have yet been found. The labor of far the larger portion of each family would have to be devoted to agriculture, in order to obtain the necessary sustenance from the ground; and as the labor of the remaining part would not suffice to renew and keep in repair the stock of tools, domestic utensils, and household comforts, these would soon be expended or worn out. As tools become imperfect and deficient, more labor must be given to tillage. The processes of agriculture would thus rapidly degenerate, till, at last, the incessant toil of the whole family would produce only a scanty supply of the coarsest sustenance, and, from the want of leisure, knowledge and civilization would die out.

But experience even of the commencement of these evils would teach mankind their appropriate and easy remedy. Several families would unite, in order to obtain the benefits of a Division of Labor. Some would devote themselves exclusively to the manufacture of agricultural implements and household articles, while the labor of the others would supply them with food. As manufacturing operatives must work near each other, the ground originally allotted to a single family would come to be tenanted by many, and would form the nucleus of a town. But a town is necessarily a market for the sale of agricultural produce and the purchase of

manufactured commodities. From the advantages which the town would thus afford, the land in its immediate vicinity, being limited in quantity, would assume a value, or, in other words, would begin to yield a Rent. Only a small number of farms of the original size, from six to twenty acres, can have the advantage of immediate proximity to the newly formed manufacturing village; the occupants of these farms would be better furnished with tools, and more able to exchange their products for manufactured goods. The occupants of farms at a distance would be willing to purchase these advantages of them, — to offer two or three acres remote from market in exchange for one acre adjoining a town. Thus Rent would begin, not at all as a consequence of the absolute *increase* of the population, for the total population might be stationary or even retrograding while these changes were going on, but as a consequence of the altered distribution of the people over the face of the country.

The highest Rents of all are obtained from land that is not used for any purposes of agriculture, but only for habitation or manufacturing purposes, within the limits of the cities themselves, — a phenomenon of which the theory of Ricardo furnishes no explanation whatever. His theory is applicable only to what may be called *agricultural* Rents; *civic* Rents, the ground-rents of houses and shops in crowded cities, afford the best of all instances of *Rent property so called*, as they are free from the effects of the great disturbing cause, — agricultural improvements. These ground-rents do not depend upon the magnitude of the population of the city, or upon its rate of increase; they rise and fall in different streets, under the varying demand produced by the changes of business and the mutations of fashion. In London, they have risen enormously high in Belgravia, and fallen proportionally in what was the fashionable part of the metropolis a century ago; in the most crowded portions of the city proper, they are probably no higher than they were in the time of George III., and do not certainly equal some in Washington Street, Boston, the population of which city is not one twelfth part as great as that of London. In the English metropolis, the population, as it increases in number, necessarily spreads itself over more space; and therefore it may be doubted whether the *aggregate* ground-rent of those portions of the city which were densely inhabited at the beginning of

this century is any greater now than it was in 1800, though the population of all England meanwhile has doubled.

In the United States, the want of local attachments and the restless and migratory character of the population have drawn attention to the fact, that Rents begin, or the land acquires value, as fast as the vicinity is peopled. The favorite form of speculation here, the easiest and most common mode of money-getting, is the acquisition of a tract of land in some neighborhood where the circumstances indicate that a new town or city must soon spring up. A fortune is thus easily acquired, as the land acquires value before any labor is expended upon it, and long before the necessities of an increasing population would require it to be inhabited, or even cultivated. In England, the more stationary habits of the population have concealed this fact; and as the land slowly rose in value with the advancement of opulence and the gradual increase in the number of the whole people, Ricardo's theory of Rent seemed plausible enough. Yet even in England there has been a regular movement of the population, a steady drain from the agricultural counties, and a filling up of the manufacturing districts.

The rise of Rents, as thus explained, is no hardship for those who are not landholders, and does not tend to depress the laboring part of the population. Those who pay these higher Rents, or the higher prices of corn which produce them, are compensated by the advantages they obtain through their vicinity to a market. In fact, the enhancement of price for the burghers or citizens is merely nominal; they obtain more, and have a readier sale, for the manufactured goods which they produce, and pay more for the corn which they consume, the one result counterbalancing the other. What matters it to the laborer if he pays more Rent for his dwelling, and a higher price for his corn and potatoes, provided that the additional wages which he receives are more than enough to meet these additional expenses? The positive gain to the community consists in the saving of transportation both ways. If the population were not concentrated, it would be necessary to transport the agricultural produce a long distance to the town where it is consumed, and to carry the manufactured goods an equal distance to the farmers who need them. Even the English Economists admit that a great saving is effected in this respect through

canals, railways, and other contrivances which lessen the cost of transportation. Is it not still a greater saving to do away with the necessity of these improved means of transport, and with the cost of constructing them, by bringing the agriculturists and the manufacturers nearer to each other?

It is as much for the interest, then, of the farmers of the Mississippi Valley, as of the manufacturers themselves, that the American system of protection should be continued. At present, the value of the lands at the West is kept down by the distance of their produce from a market. The cost of transporting a barrel of flour from Cincinnati to New York amounts, at ordinary prices, to at least thirty per cent of its value at the former place; the cost of its further transportation to Liverpool, including insurance and other necessary expenses, raises this proportion to about forty per cent. Create a manufacturing population in Ohio like that which exists in English Lancashire, and the price of flour at Cincinnati would be made equal to its price at Liverpool. Free trade between England and Ohio, then, means simply that Ohio produce should be admitted into the English ports under what we may call a "transportation duty" of forty per cent; while, owing to the great value in a small bulk, of the finer manufactures, English produce is to be admitted into Cincinnati at a duty of only fifteen per cent. In other words, the opponents of protection would persuade the Ohio farmer that it is better for him to buy English broadcloth at $1.70 a yard, and sell his flour at $5.00, than to buy American broadcloth of the same quality at $2.00, and sell his flour at $7.00. The depression in the value of Ohio produce, which took place between 1847 and 1852, is clearly attributable to the fact, that the crowds of laborers discharged from our unprosperous manufacturing establishments, and the 300,000 immigrants annually landed on our shores, had been driven into agriculture, and had so increased the annual product of Michigan, Iowa, and Wisconsin, as to undersell the Ohio farmer at his own door. The protection of our manufactures would enlarge the home market for him, through the very means which are now swelling the number of his competitors.

CHAPTER X.

THE CAUSES WHICH AFFECT THE RATE OF WAGES: WHY WAGES ARE NOT EQUAL IN DIFFERENT EMPLOYMENTS.

THE doctrine of the English Economists respecting Wages may be easily inferred from their two theories, already considered, respecting Population and Rent. Putting aside the consideration of Wages *reckoned in money*, as these are subject to merely nominal variations, according as the value of money rises or falls, they say that Wages *rated in commodities*, or the quantity of produce apportioned to each laborer, is determined by the ratio which the capital of the country bears to its laboring population, or to the number of those who work for hire. By capital, however, they here mean "only Circulating capital, and not even the whole of that, but only the part of it which is expended directly in the purchase of labor. To this, however, must be added all funds which, without forming a part of capital, are paid in exchange for labor; such as the wages of soldiers, domestic servants, and all other unproductive laborers." The aggregate of capital or wealth devoted to this purpose, to the payment of productive or unproductive labor, may be termed the *Wages-fund* of a country; and the share of it which each laborer receives will evidently be determined by its amount, divided by the whole number of persons seeking employment.

Thus explained, the doctrine is a mere truism. We obtain no insight into the causes which regulate the rate of Wages, when we are merely told that this rate depends upon the whole sum annually expended for Wages, divided by the number of persons who share this sum among them. But as it is intended to be understood, the doctrine is merely a covert statement of the theory of Malthus. Assuming it to be impossible, by any measure of legislation or government policy, to increase the aggregate funds employed in hiring laborers, it is affirmed that a "diminution in the number of competitors for hire" is the sole means of raising Wages, and that the power and responsibility are thus placed in the hands of the laborers themselves. If they will refrain from overstocking the labor-market, their condition as a class may be

bettered; but "every scheme for their benefit, which does not proceed on this as its foundation, is, for all permanent purposes, a delusion." "It is impossible," continues Mr. Mill, "that Population should increase at its utmost rate without lowering Wages. Nor will the fall be stopped at any point short of that which, either by its physical or its moral operation, checks the increase of Population."

Here is the great mistake of *confounding the undue relative number of a class, with a general excess of the whole Population.* The former evil might be corrected by portioning out society anew, through the gradual influence of altered laws, so that the divisions, or castes, which are too thin in number, might be recruited from those which are in excess, and the proper balance be thus restored without the necessity of adopting any measures which would affect the bulk of the people. The latter evil, if it ever really existed, could be removed only by war, pestilence, famine, or a general adoption of the doctrine of Malthus. If it were as easy in England as it is in this country for a common laborer to become a master-mechanic, or a small tradesman, or to buy a farm; or if, as in most countries on the Continent, the bulk of the laboring community possessed either peasant properties, or a kind of prescriptive right to farm the land of another "on shares," as *métayers*, there would be no need of preaching abstinence from marriage to them; they would not compete with each other in the labor-market, if the rate of Wages were not high enough to tempt them to forsake their independent occupations. The number of persons in Great Britain who are entirely dependent on the Wages of hired labor is unquestionably much too great; the proportion of this class to the whole people is probably five times as large as in any country in Continental Europe. Diminish their number, then, by all means. But how? The Malthusian Economists assume that the only mode of effecting this end is to check the natural growth of the whole population, — to lessen the yearly average of marriages and births. But would it not be equally effectual, and more practicable, to recruit from them the classes which are strikingly deficient in numbers, and thus restore the proper balance of society? It is certainly an anomaly and an evil, that more than half of the people of Great Britain should be hired laborers, who have neither capital nor land; but it is equally anomalous and inju-

rious to the welfare of the whole nation, that only about 50,000 persons should own nearly all the land, and less than 250,000 possess four fifths of the whole property, both real and personal. If the greater part of the hired laborers in England could be converted into peasant proprietors, we should hear no more complaints about the lowness of Wages, or the over-populousness of the country. The true mode of raising the rate of Wages is to alter the *relative* number of employers and employed, not to diminish the *absolute* amount of the Population.

According to the English theory, however, there are certain limits below which Wages *cannot* be reduced. "The cost of producing labor," says McCulloch, "like that of everything else, must be paid by the purchasers. The race of laborers would become extinct, were they not supplied with the food and other articles sufficient, at least, for their support and that of their families. This is the lowest limit to which the rate of Wages can be permanently reduced; and for this reason, it has been called *the natural or necessary rate of Wages.* The market, or actual, rate of Wages may sink to the level of this rate, but it is impossible it should continue below it. It is not on the quantity of money received by the laborer, but on the quantity of food and other articles which that money will buy, that his ability to maintain himself, and rear children, must depend. Hence the natural or necessary rate of Wages is determined by the cost of the food, clothes, fuel, etc. required for the use and accommodation of laborers. However high the price of these articles, the laborers must always receive a supply of them adequate for their suppport; if they did not obtain thus much, they would be destitute; and disease and death would continue to thin the population, until the reduced numbers bore such a proportion to the national capital as enabled them to obtain the means of subsistence."

The standard of natural Wages, however, does not always mean the smallest amount of food and other necessaries that is absolutely requisite to preserve life. As we have seen, what are accounted *necessaries* in one country may be esteemed, in another, the *decencies*, and, in a third, the *luxuries*, of life. In England, the custom of the country requires that the laborer should have beer; his family, tea; and all must have daily provision of bread, and occasionally taste meat. Only in Ireland, before the recent

exodus, was the standard of natural Wages generally reduced to the cost of the absolute necessaries of existence, to a few potatoes and a little buttermilk, the scantiest provision of the coarsest and cheapest food that would support life. In such case, of course, no retrenchment is possible; and whenever a partial failure of the crops, as in 1847, or any other adverse circumstance, produces the slightest enhancement of the price of these necessaries, the laborer must starve, if public munificence does not come to his relief. But in England, if Wages are temporarily reduced, or if food for a short time be of higher cost, the working classes can dispense with meat, beer, and tea, and still subsist. But the standard of living being established by long custom, the laborers will not submit to such a reduction of their comforts as a permanent arrangement.

Hence the importance which is attributed by the Malthusian Economists to the preservation of a high standard of living for the laboring classes. Those who work for hire, they argue, are themselves to blame, if, in their eagerness to burden themselves with families, they submit to lower Wages and a poorer style of living than that established by their forefathers; they must blame themselves if they do not even take advantage of a temporary increase in the demand for labor, or a temporary reduction in the price of food, to improve their condition permanently, by refusing to go back to the low Wages and diminished comforts of their former life.

It is in this way that the Malthusians justify the uniform despondency of their views, and refuse to believe that the abolition of the corn-laws, emigration, a widely spread epidemic, a destructive war, or any other cause of cheapened food or lessening for a time the number of competitors for hire, can effect any permanent improvement in the condition of the working classes. Instead of profiting by the occasion to raise their standard of living, the laborers, they say, use the increase of their income only as a means of rearing more children, whose competition must eventually bring back Wages to their former proportion to the price of food. The fact is overlooked, that it is the present hopelessness of their condition — the impossibility of rising above their present rank in life, or even, as they are already at the bottom of the scale, of falling below it — which renders the laboring poor reckless and improvident in respect to marriages. Under a different consti-

tution of society, which should give the bulk of the people a right of ownership in the soil, such as the corresponding classes generally possess upon the Continent, and should break down the now impassable barriers between the different classes in the community, leaving the avenues to wealth and honor as open as they are in the United States, they would either become more provident and hopeful, or a large family would no longer be a burden.

Certainly, no one, under present circumstances, would advise either an English or an Irish laborer, who is entirely dependent on Wages, to diminish his chance of keeping out of the workhouse by taking upon himself the support of a wife and children. But the very fact, that it is now imprudent for them to marry, is what they have most right to complain of, since it is *not* their own fault, but that of the laws and the aristocratic institutions of their country. If the policy of the English law had favored the distribution of fortunes as directly as it has actually encouraged their aggregation, the laboring classes of England, like the peasantry of France and Switzerland, and the inhabitants of our own land, would be free to follow their own inclinations without incurring the charge of imprudence. Their right to do so would be established by a fact of the first importance in the eyes of a Malthusian; they would not have become as numerous as they now are. The population of France, under the law which compels an equal division of the parent's estate among his children, increases at the rate of only five per cent in ten years, while the rate for England is nearly thrice as great. Yet no one supposes that the Englishman is naturally more careless and improvident, or more inclined to excess, than his neighbor across the Channel.

In England, an increase of the population is, *pro tanto*, an addition to the number of laborers seeking employment, — an increase of the supply in the labor-market, — and therefore a cause of the depression of Wages. In America it is not so. The facilities for collecting a little capital are so numerous, and the expenses of living among a rural population, especially in the Western States, are so moderate, that the class of persons who are dependent exclusively upon Wages, and who form the bulk of the community in many European countries, is here comparatively small. Most of our people, at least of those who are native-born, may be said to belong to the class of independent laborers or small capitalists.

Either by inheritance, or the assistance of friends, or the facility of obtaining credit, or by savings made from Wages earned during his minority, almost every native American may be said to have the option of "beginning life," as it is called, with a little capital. But because this capital is small in amount, the possessor of it is willing, if Wages are high, to work for others for a time, either as a journeyman, a farm-laborer, a clerk, or in some other capacity, in order to increase his little store by additional savings from Wages, before he commences business on his own account. To be in the receipt of Wages is not in America, as it generally is in Europe, to be entirely dependent upon Wages. The person employed not unfrequently lends capital to his employer, and is thus placed upon an equality with him, and saves his self-respect, though he is "working for hire." One who either owns, or has the power of purchasing, a small farm, will yet "hire himself out," as the phrase is, for a season or two, in order to obtain the means of stocking his land, or otherwise facilitating his future enterprise.

Should Wages be low, however, persons of small means see little advantage in postponing their introduction to business, and are tempted to employ their own capital at once in some independent occupation. There are innumerable openings for private adventure, which require only an adventurous spirit and a very moderate amount of capital or credit. The step between the situations of a journeyman and a master-mechanic, a clerk and a small tradesman, a farm-laborer and a small farmer, is a short one and very easily taken. If nothing better can be done, there is always the resource of removing to the West, and becoming a pioneer in the settlement of government land, which is first obtained with a squatter's pre-emption right, and paid for out of the proceeds of subsequent harvests, or out of the enhanced value of the land when the neighborhood begins to be peopled. The tide of emigration westward always becomes fuller and stronger in periods of commercial depression, the stoppage of manufactories, the low prices of agricultural products, and the consequent reduction of the rates of Wages. A check is thus immediately applied to the fall of Wages, which do not sink as low as might be expected from the general depreciation of property and diminution of the rate of profit. If Wages should be considerably lessened, few operatives for hire could be had, except those of foreign origin. Many have

a home in the rural districts, to which they can retire in such an emergency, and wait for a return of the prosperous times which first tempted them to leave the paternal roof, and commence work for high Wages in a manufacturing town.

Again, hired laborers easily become small tradesmen or master-mechanics, because the business of the manufacturer, the merchant, and the artisan is here not so much concentrated in the hands of a few persons with large capitals as it is in England. The competition of many, each having but a small stock in tools or trade, is not so easily crushed out by the monster undertakings of large houses wielding an immense capital, who can outlive the reverses of trade, or the periods of depression in the market that are usually fatal to persons of smaller means. Reverses happen and failures ensue, oftener even than in England, and to large and small capitalists alike; but, as already mentioned, there are great facilities here for bankrupts to recover their position and try again. Profits and losses are great, speculation is rife, and great fortunes are acquired and dissipated with marvellous rapidity. Hence there is great instability, but also much life and enterprise, in trade, and in all departments of industry.

Here, also, is the explanation of the restless, migratory spirit, and the want of local attachments, which have so often attracted the attention of foreign observers. Of the population of three of our Western States, Minnesota, Iowa, and Wisconsin, amounting in the aggregate to 1,622,817, according to the census of 1860, only 29 per cent were born within the limits of these States in which they are domiciliated, about 27 per cent were born in foreign countries, and over 43 per cent had their nativity in other States, though still within the limits of the Union. In European countries, the bulk of the population work for hire, and are too poor to be able to change their locality; they lack rather the ability than the disposition to emigrate. But both in Europe and America the rule holds, that, in general, only the poorer people — the laborers for Wages — are inclined to seek a new home. If, therefore, within twenty years, about 705,000 of our people have migrated into these three States, it is a proof that the laboring class here generally have the pecuniary means for such migration; in other words, they have a small capital, which, if they saw fit, they might employ in establishing themselves in business on their own account

in the places of their nativity, and thus ceasing to work for Wages. Taking the whole population of the United States together, according to the same census, it appears that about 5,774,000 native-born white Americans, or over 18 per cent of the whole number, are now resident in other States than those in which they had their nativity.

The doctrines of the English Political Economists respecting Wages cease to be applicable, or to have even the appearance of truth, here in the United States. Our natural standard of Wages is, not the smallest sum which will enable the temperate and industrious native-born laborer to support a family with decency, but the smallest that will enable him to do not only thus much, but to amass capital, — that will induce him to forego the independence and the other advantages of trading or working for himself. A true regard for the interests of the class to which he belongs would lead us to seek rather to lower than to elevate his idea of what is necessary for this end. The love of independence, the thirst for adventure, the hope of drawing one of those glittering prizes that often reward a daring spirit, though accompanied with a vast proportion of blanks, tempt far too many to abandon the safe course of slowly collecting a moderate property by savings from Wages. Many a bankrupt farmer, tradesman, or master-mechanic might have safely earned independence by continuing to work for hire.

The mere progress of the population, unparalleled as it has been for rapidity, has been far from producing here what the English Economists regard as its necessary result, — the depression of Wages. During the last few years, indeed, they have been somewhat depressed through the operation of special causes, which we have now to point out and explain. But with this exception the real value of Wages, or the quantity of the necessaries of life which they will purchase, has probably increased in this country ever since the beginning of the present century, when our population was only one eighth of what it is now. Neither can the phenomenon be explained by the recent date of our settlements, nor by the extent of fertile, unoccupied land in our Western territory. It is only by comparison that the States on our Atlantic border, in which this phenomenon of high Wages is exhibited, can be called recent settlements. Most of them are already over two hundred

years old, and have long since passed beyond the stages of colonial infancy and childhood. True, the drain that is caused by the constant migration westward tends to explain the effect; but the question remains, why a similar result is not produced even in England; for, as already remarked, the way from Massachusetts to Iowa and Kanzas is nearly as long, and quite as expensive, as from Dublin and Liverpool to Nova Scotia and Canada. I attribute the result, therefore, to moral rather than to physical causes, — to American institutions more than to the fact that America is still a new country, and is rich in fertile and yet unoccupied land. The mobility of society, the wider distribution of property, the absence of castes, *la carrière ouverte aux talens*, and other peculiarities created and fostered by our laws, are alone sufficient to account for the phenomenon.

The only causes which strongly tend to a depreciation of Wages in this country are the vast and constantly increasing immigration of foreigners, the increased burden of taxation, and the want of sufficient encouragement for our manufactures. These causes may produce as lamentable an effect upon Wages in the United States as other agencies have caused in Great Britain and Ireland. At present, our institutions are preserved, and general content exists among the people, because no class in the community finds itself doomed to irretrievable penury, and not one individual is without the well-grounded hope of improving his condition, and perhaps of rising even to high rank in the social scale. But let the rate of Wages here be reduced to what the English Economists regard as their natural and necessary standard, — that is, to a bare sufficiency for subsistence from day to day, — and the class of laborers, who must always form the majority in any community, and who, with us, also have the control in politics, will not be satisfied without organic changes in the laws, which will endanger at once our political and social system.

Our immunity thus far ought not to betray us into a blind confidence for the future. A few years have produced a marvellous alteration in our prospects, and the change has not been altogether for our advantage. The Atlantic has been bridged by steam, and the ties which connect us with Great Britain, and link our commercial and social well-being with hers, are strengthening every day. Ireland is depopulating itself upon our shores, and the

influx from Germany and China is rapidly increasing. For the four years next after 1849, the average number of foreigners who arrived in this country was over 400,000 a year; for the three years before 1846, it was only 121,000. About one million arrived during the three years preceding 1870. In one particular, this result is inevitable; we might as well try to dam up the Mississippi with bulrushes, as to stop this great westward migration of the nations. But we may enlarge the field of employment, and increase the number of the applications of industry, so that this immense influx shall not produce its full effect in depressing the price of labor.

The tide of emigration was first turned with overwhelming force upon our shores in 1847, a year of famine in Ireland and Scotland, and of great distress in several other parts of Europe. The census taken by the English government not only shows how great was the calamity then endured, but has brought to light another fact, which is without a parallel in the history of the world; — a great and fertile country, inhabited by a civilized people, enjoying a mild and equitable government, and yet, without the agency of war, pestilence, or any sudden paralysis of its industry from external causes, actually becoming depopulated by famine and emigration.

The population of Ireland in 1841 was over eight millions. Assuming that the natural rate of increase of the Irish people for ten years is twelve per cent, which is the estimate of the Census Commissioners for 1841, it follows that the number in 1851, if it had not been diminished by the two causes just mentioned, would have exceeded nine millions, and, in 1861, would have been about ten and one fourth millions. But the actual population of Ireland in 1861 was 5,800,000; that is, about two and one fourth millions less than it was twenty years before, and four and a half millions less than what it should have been if the natural law of increase had not been checked. "The day is probably not far distant," says Prof. Fawcett, "when Ireland will require English laborers to reap her own harvest."

What has become of these millions of human beings? The official returns of the total emigration from the United Kingdom, for the twenty years ending in March, 1861, do not account for more than three fourths of this number, so that the loss of the

other fourth must be attributed to famine and the diseases consequent upon extreme misery and want. And the drain still continues; a panic seems to have seized the population of Ireland, and they rush to the seaports to embark for any other portion of the earth, as if the whole island labored under a curse.

These facts have a peculiar meaning and pertinency for us here in the United States; they must affect our future prosperity, whether for good or ill, far more even than that of Great Britain. These exiles are coming to us, mostly in a state of great destitution, bringing with them Irish habits, and Irish willingness to live in squalor upon the smallest pittance that will support life. Already they constitute, either by themselves or in connection with the Germans, almost the whole class of our menial or domestic servants, and of rude laborers in the construction of railroads and other public improvements. Cheapness of provisions is not the attraction that brings them here; at this moment, all the common articles of provisions are cheaper in Ireland than in the Atlantic States of this Union. Nor is it comparative freedom from taxation which they seek; for the annual amount of Irish taxes is only about ten shillings a head, which is much less than the burden of government here in America. But they come in quest of constant employment and higher Wages. *These* are the tangible tokens of our prosperity, the causes of the general well-being of our people; and these have made the United States a harbor of refuge for the poor of the civilized world.

We have proof that the Irish have succeeded in obtaining in America what they came to seek, — Wages which should suffice, not only to support life, but to enable them to effect considerable savings. The remittances which they are making to alleviate the misery of their relatives and friends at home, or to enable them to emigrate to this country, have reached an amount that hardly seems credible, though the statistics of the subject, collected by the British government, cannot be questioned. It appears that the amounts remitted from America to Ireland through the banks, exclusive of sums sent by private hands, amounted, in 1848, to £460,000; and that they steadily increased, till, in 1853, they reached the prodigious sum of £1,439,000. The aggregate of such remittances between 1847 and 1864 was ten millions sterling, or about fifty millions of dollars. It is probable that a portion of

this sum is remitted for investment, a favorable opportunity being afforded for the purchase of land by the sale of Irish "Encumbered Estates." Thus the Irishman comes to America as a pauper, and, in a few years, collects the means of returning, if he sees fit, to his native country as a landowner.

The history of Ireland shows the inevitable consequences of free trade with a country having so vast an aggregate of capital as Great Britain, and also reaping the fruits of the skill and experience acquired during a strict enforcement of the protective policy for two centuries. The legislative union of the two countries, at the beginning of the present century, broke down the few barriers which formerly limited their intercourse, and left them to compete on what the English Economists consider as *equal terms*. Till this epoch, whatever political evils Ireland may have endured, her social state was not in any marked degree inferior to that of England. The habits of her people, it is true, were not so neat and industrious; but Wages were not reduced to a starvation limit, and her cottiers generally had enough to eat and to spare. But unrestricted intercourse with England stifled the small beginnings of her manufacturing industry; for her people could purchase from the sister country all the products even of the small mechanic trades and arts cheaper than they could, at the time, manufacture them for themselves. They bought in the cheapest market, forgetting that they had nothing but the cereal grains, pigs, potatoes, and butter to offer in exchange, and that the production of these articles would not afford employment to half the industry of the people. Manufactures could never gain a foothold among them, save in the North, where a colony of canny Scotch introduced the culture of flax, made linen, and have since kept themselves out of the abyss of poverty into which the rest of the island has been plunged. So feeble were the means of the native Irish for keeping up trade by exportation, that their consumption both of domestic and foreign goods dwindled almost to nothing. Mr. Martin, a statistical writer upon Irish affairs, cannot suppress his astonishment that "the consumption of British manufactures in Ireland is not more than one guinea *per annum* for each inhabitant, whereas the negroes in the West Indies consume each five pounds' worth annually." But the reason is obvious enough; the negroes in the West Indies have sufficient employment for their

industry in the production of sugar, coffee, and pimento, in regard to which they are not exposed to Transatlantic competition. Having enough to sell, they are consequently able and willing to buy. But the Irish have nothing to sell except the provisions which they take from the mouths of their children. So they have gone on, constantly exporting a larger share of their pigs, potatoes, and butter, till they have at last ceased to preserve any to satisfy their own hunger. While the famine of 1847 was at its height, upwards of three millions of persons were fed at one time by public charity. If these are the consequences of free trade with England, and exclusive addiction to agricultural pursuits, we may well call for the preservation of a protective policy here in the United States.

Though the number of Irish who have crossed over into Great Britain probably does not equal one fourth of those who have found a refuge in the United States, Mr. J. S. Mill, who generally opposes the interference of government on any occasion, makes this extraordinary admission: "If there were no other escape from that fatal immigration of the Irish, which has done and is doing so much to degrade the condition of our agricultural and some classes of our town population, I should see no injustice, and the greatest possible expediency, in checking that destructive inroad by prohibitive laws."

The field for the employment of industry here cannot widen fast enough for our wants, except American manufactures, now burdened by heavy internal taxes, are protected by a judicious tariff against foreign competition supported by the cheapness of labor in England, Belgium, and Germany. Already so many of the immigrants and the native-born have been driven into agriculture as to bring down the prices of breadstuffs and other provisions so low that farmers have little encouragement here to raise more of them than are necessary for home consumption. By exporting this cheap food, we are, in fact, assisting the foreign manufacturers in their efforts to maintain that cheapness of labor in Europe which now enables them to undersell American producers in our own market. Heavy taxes on raw materials, such as lumber and pig-iron, have so enhanced the cost of building ships and houses, that most of our commerce is now carried on in foreign vessels, and rents even of the poorer class of houses

have risen so high as to destroy in great part the good effect of high Wages. Heavy duties on semi-necessaries, like tea, coffee, and sugar, have also so far enhanced the cost of living, that although *nominal* Wages, reckoned in money, are still much higher than in England, so that our manufactures cannot, without legislative protection, compete with their British rivals, *real* Wages, reckoned in purchasing power, are reduced, at least for skilled labor, nearly to the English standard. High rates of taxation, also, on such imported raw materials as hides and coal, wool and salt, have so much enhanced the cost of shoes and fuel, of clothing, blankets, and carpets, and of packing beef, pork, and fish, that the purchasing power of money-wages and salaries has been materially diminished. According to the Special Commissioner of the Revenue, while the average advance in the price of commodities, since 1861, has been about 90 per cent, the corresponding average advance in wages has not exceeded 60 per cent. Of course, much of this advance is merely nominal, as it is reckoned in a currency that is depreciated about 30 per cent. Hence the Wages of the laborer must be increased; but this will so enhance the money-cost of the commodities that he produces, that, if very high duties do not keep out foreign competition, they cannot retain possession even of the home market, all hope of exporting them to advantage being long since relinquished.

Hence we are not surprised to be told, in 1869, that "instances are not infrequent where skilled workmen from Europe have visited the United States, within the last three years, with the view of engaging permanently in their special industries, and have returned because the inducements offered were not sufficient to make a change of residence on their part desirable." The explanation is, that "although the Wages now paid in the United States for skilled labor are nominally much greater than in Europe (even when computed on the gold standard), their purchasing power, as respects commodities and rents, are so much less as to leave either no balance whatever in favor of residence in this country, or one that is comparatively trifling." Thus the average rent of six-roomed tenements in the United States is $84 (in gold) *per annum;* and for four-roomed tenements, $63. In the cotton districts, and in Sheffield, England, the corresponding rents of houses occupied by operatives are $43 and $35.

"The aggregate wealth of the country," we are told by the same authority, Commissioner Wells, "is increasing, probably as rapidly as at any former period; yet it does not follow that there is the same increase in general prosperity. The laborer, especially he who has a large family to support, is not as prosperous as he was in 1860. His wages have not increased in proportion to the increase in the cost of his living. There is, therefore, an inequality in the distribution of our annual product, which we must refer to artificial causes. This inequality exists even among the working classes themselves. The single man or woman, working for his or her support *alone*, receives wages from which savings may be made as great as before, and even greater; especially in the manufacturing towns, where the price of board is, to some extent, regulated artificially by the employer. Unmarried operatives, therefore, gain; while those who are obliged to support their own families in hired tenements lose. Hence deposits in savings' banks increase, while marriage is discouraged; and the forced employment of young children is made almost a necessity, in order that the family may live."

It is not enough for the peculiar situation in which the people of this country are now placed, that the great departments of industry should be able merely to sustain themselves, by a great effort, at the point which they had reached ten years ago. They must be developed and multiplied at a rate proportioned at least to the rapid growth of our population both from native and foreign sources. Otherwise, the profits of capital and the Wages of labor must sink to the level at which they have long rested in Great Britain. The inevitable consequence of free trade and constantly increasing commercial intercourse between the two countries must be to establish among the inhabitants of both the same standard of material well-being, the same measure and distribution of individual prosperity. We are rapidly becoming as much one people as the English and the Irish, or the English and the Scotch. To expect that, in two countries thus situated, without any special direction of public policy towards maintaining some barrier between them, the pressure of population, the profits of capital, and the Wages of labor can long remain very unequal, would be as idle as to believe that, without the erection of a dam, water could be maintained at two different levels in the same

pond. Throw down what remains of our protective system, and let the emigration from Europe and Asia to our shores increase to half a million annually, and within the lifetime of the present generation the laborer's hire in our Atlantic States will be as low as it is in England. Our manufactures would flourish then, as those of Great Britain flourish now; cheap labor is the only requisite for placing them upon the same level. It is not, then, for the sake of the capital now embarked in our manufacturing enterprises, that we would advocate the continuance of what has been well denominated "the American policy." But that the bulk of our laboring population should fall into that condition where they would be exposed to such evils as have visited the laboring classes of Great Britain and Ireland during the last twenty years, — that the *necessary* standard of Wages, as the English Economists call it, should be here, as well as there, the smallest sum which will give a mere subsistence, — this we should regard as the greatest calamity which the folly of men or the wrath of Heaven could bring upon the land.

The effect of competition upon the rates of Wages in different employments has been admirably illustrated by Adam Smith. It is matter of common observation, that the workmen in different arts and trades are paid very unequally, if their Wages be reckoned only in money. A blacksmith usually earns more than a farm-laborer, a watchmaker more than a blacksmith, a lawyer or a physician — for these also are laborers for hire — more than a watchmaker. How can such inequalities exist, when competition, the great equalizing agent, is always at work, and tends always to brings Profits, Wages, and Prices to a level? Why do not persons leave those employments that are underpaid, and flock into those which receive more than the average? The answer is, that laborers are paid for their services not only in money, but in the various degrees of credit or estimation in which their business is held, in the agreeableness or disagreeableness of the occupation, the ease or difficulty of learning it, and in its several other peculiarities; and that competition is often limited by circumstances, so that it is unable to produce its full effect. I borrow with some enlargement the illustrations of this topic by Adam Smith and other Economists.

First, "the Wages of labor vary with the ease or hardship, the

cleanliness or dirtiness, the honorableness or dishonorableness, of the employment." Thus, the work of a stevedore, that of loading and unloading vessels at the wharves, as it is more humble, dirty, and fatiguing, is more highly paid, than that of a shoemaker. "A journeyman blacksmith, though an artificer, seldom earns so much in twelve hours as a collier, who is only a laborer, does in eight; his work is not quite so dirty, is less dangerous, and is carried on in daylight and aboveground. Honor makes a great part of the reward of all honorable professions." The profession of a teacher is more respectable than that of a dressmaker; and therefore many young women, here in New England, will keep school at three dollars a week, when they might earn six dollars in the same time by ministering to their countrywomen's love of fashion and elegance in dress. Occupations which can be pursued at home are not so largely remunerated as those which must be carried on within the precincts of a great manufactory. A farmer's daughter, who has what is called "slop-work" supplied to her at home from the cheap-clothing establishments, cannot earn one third as much as she would receive for tending a loom in a cotton-factory; but then she can choose her own hours for work or recreation, can rise early or late, and be free from any external control. This freedom of action is paid for by a diminution of wages.

"Secondly," says Adam Smith, "the Wages of labor vary with the easiness and cheapness, or the difficulty and expense, of learning the business. When any expensive machine is erected, the extraordinary work to be performed by it before it is worn out, it must be expected, will replace the capital laid out on it, with at least the ordinary profits. A man educated at the expense of much labor and time may be compared to one of these expensive machines." Regard must be had to the average duration of human life, for at death the whole capital vested in the man's education disappears. Hence the excess of the educated man's wages over the ordinary wages of common labor ought to be the yearly payment of such a life-annuity as could be bought with the whole sum vested in his education.

It should be added, that all persons are not capable of learning the more difficult employments, for which a quick eye, a dexterous hand, and some natural taste or ingenuity are often requisite. Not all common laborers, even after much expense of time and

training, would make good blacksmiths; nor are all blacksmiths capable of becoming first-rate machinists. The competition for employment in the more difficult trades is therefore first limited by Nature, through the various capacities which she bestows upon men; and secondly, by the necessity of education, which not all, even of those who are naturally gifted, have time, money, or opportunity to obtain. Engraving has risen to be one of the fine arts, as the talent for practising it with the highest success is as rare as that of a great painter or sculptor. In engineering, the construction of machinery, and ship-building, great natural ability, improved by education and practice, may obtain remuneration so liberal as to appear extravagant.

In what are called the liberal professions, however, though a protracted and expensive education is required for admission to them, the rates of compensation, on an average, are very low, — sometimes actually lower than in the mechanic trades. In Ohio, for instance, and, it may be presumed, in most of the other Western States, the salaries of the clergymen often are not equal to the wages of good journeymen blacksmiths. True, some of the clergymen, especially in the Baptist and Methodist denominations, are not liberally educated men; but the great majority have completed their training both at college and in the professional schools. At the bar, also, though a few eminent practitioners make great gains, the aggregate earnings of the whole body of lawyers, if equally distributed among them, would hardly equal the average wages of mechanics. Physicians may be somewhat better paid on an average, though the aggregate earnings of their craft are capriciously distributed, an ignorant and impudent quack often obtaining more than a competent and thoroughly instructed practitioner. This is because there is no certain criterion of the physician's skill; whether the patient lives or dies, it is generally doubtful whether the result is to be attributed to nature or the doctor.

Adam Smith justly attributes the inadequate compensation of labor in the liberal professions, first, to the superior dignity or honorableness of such labor, which is an offset for the inferior pecuniary reward; secondly, to the natural confidence which every man has in his own abilities and his own good fortune, whereby he persuades himself that he shall draw one of the few great prizes in the law or the church, instead of one out of the many blanks; and

thirdly, so far as literature and the sacred ministry are concerned, to the number of persons who are educated for those occupations at the public expense. "It has been considered as of so much importance that a proper number of young people should be educated for certain professions, that sometimes the public and sometimes the piety of private founders have established many pensions, scholarships, exhibitions, bursaries, etc. for this purpose, which draw many more people into those trades than could otherwise pretend to follow them. In all Christian countries, I believe, the education of the greater part of churchmen is paid for in this manner. Very few of them are educated altogether at their own expense. The long, tedious, and expensive education, therefore, of those who are, will not always procure them a suitable reward, the church being crowded with people who, in order to get employment, are willing to accept of a much smaller recompense than what such an education would otherwise have entitled them to; and in this manner the competition of the poor takes away the reward of the rich."

In respect to the education, in part gratuitous, which is offered by the colleges as a general preparation for the other professions, though the effect is certainly to lessen the emoluments of practitioners by increasing the number of competitors, sound policy, or a regard for the best interests of the people, requires that it should be continued. Adam Smith, with his usual bias towards the principles of free trade, would have the whole matter regulated by the natural operation of supply and demand, assuming that, if more lawyers, physicians, and literary or scientific men are needed, their rates of compensation would be raised, and thus more persons would be tempted to enter these professions, even at the cost of educating themselves. But the immediate earnings of literary and scientific men, as already explained, are inferior to their merits, and altogether insufficient for their wants; while it is of the utmost importance for the interests of the public that a numerous class of highly educated men should exist in the community, capable of appreciating each other's efforts and of aiding the progress of letters, science, and invention. Besides, many must receive the benefits of a liberal culture, in order that the few who are able to profit by it in the highest degree may be sure not to miss the requisite preparatory training, without which even

their eminent abilities may not produce their proper fruits. Many thousands must graduate at Oxford and Cambridge, in order that a possible Milton, Newton, or Bentley may not be hindered from benefiting the world by his genius. It is a commonplace remark, that "mute, inglorious Miltons" probably rest in every village churchyard. That is a short-sighted policy which would weigh the cost of institutions of learning against only the average result upon all those who are trained at them; the value, to the community at large, of the services of such men as have been named, is literally inestimable; it would outweigh the expense of founding and maintaining universities enough to educate the whole people.

Thirdly, says Adam Smith, "the Wages of labor in different occupations vary with the constancy or inconstancy of employment. In the greater part of manufactures, a journeyman may be pretty sure of employment almost every day in the year that he is willing to work. A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consqeuence, to be frequently without any. What he earns, therefore, while he is employed, must not only maintain him while he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion." It is easy to see that the person who can be employed only a part of the time *ought* to receive higher Wages than one who has regular work and constant pay; and, for evident reasons, his compensation *must* be larger. On account of the irregularity and uncertainty of his occupation, fewer persons will be disposed to engage in it; thus the competition will be less, and he will be able to raise his price, until the increased pay affords an adequate compensation for the inconstancy of the employment.

In most cases, employers take all the risk; that is, they insure regular Wages to their hands, whether the work be constant or irregular, lucrative or insufficient to pay the expenses. Thus, the driver of a stage-coach receives the same pay, whether the vehicle be full or empty; and the clerk in a store must have his regular salary, though business is sometimes dull, and he has little to do. So, also, a ship must be manned by sailors enough to take care of

her even in a storm; and the consequence is, that in ordinary, pleasant weather, the crew may be idle more than half of the time. Sometimes, however, the person employed takes the risk, and his Wages, when he is at work, must be high enough to compensate him for occasional necessary idleness. Thus, the driver of a hackney-coach is paid only a certain proportion of what he can earn during the day; and the crews of our American whaling-vessels generally "go upon shares," as it is termed; that is, they have no monthly Wages, but receive the value of a fixed portion of the oil that they take. As ships sometimes come home "clean," or without any oil, so that they obtain nothing for one or two years' labor, their share of a full cargo ought to exceed, and actually does considerably exceed, the ordinary amount of seamen's Wages for a voyage of the same length.

The fourth cause assigned by Adam Smith for variation in the rate of Wages is the small or great trust that must be reposed in the person employed. Thus, goldsmiths and jewellers are paid more liberally than workers in brass or iron, not merely on account of their greater skill, and in spite of their labor being more agreeable and less fatiguing, but because of the greater value of the materials with which they are intrusted. "We trust our health to the physician, our fortune, and sometimes our life and reputation, to the lawyer and attorney. Such confidence could not safely be reposed in people of a very mean or low condition. Their reward must be such, therefore, as may give them that rank in the society which so important a trust requires. The long time and the great expense which must be laid out in their education, when combined with this circumstance, necessarily enhance still further the price of their labor."

On the same principle, also, those who are intrusted with the handling of much money, such as the cashiers and tellers of banks, the treasurers and managers of manufacturing and railroad corporations, must receive high salaries. It may be thought, perhaps, that there is some degradation in being rewarded for common honesty, as men ought to be honest without being paid for it. So they ought; but what they are paid for is, not honesty, but the reputation for honesty, — that security which is found in their well-known previous lives and character, and in the general circumstances of their situation, that they will be faithful to their

trust. Not all, not even many, persons are lucky enough to be well known to the community at large as deserving full confidence in any office, however much exposed to temptation. The competition for such offices being thus restricted to a few, they are enabled to raise the price of their services. Sometimes security is taken, the persons employed being required to give bonds to a heavy amount for their fidelity to their engagements. In this case, there is no need of their integrity being well known to the public at large; it is enough that they have so far earned the confidence of a few as to be able to obtain sufficient bondsmen. The contrivance of giving bonds thus opens the competition, and tends to reduce salaries, but not to make them so low as they would be if no bonds were required.

Fifthly, says Adam Smith, "the Wages of labor in different employments vary according to the probability or improbability of success in them. In the greater part of the mechanic trades success is almost certain, but very uncertain in the liberal professions. Put your son apprentice to a shoemaker, and there is little doubt of his learning to make a pair of shoes; but send him to study the law, and it is at least twenty to one if he ever makes such proficiency as will enable him to live by the business. In a perfectly fair lottery, those who draw the prizes ought to gain all that is lost by those who draw the blanks. In a profession where twenty fail for one that succeeds, that one ought to gain all that should have been gained by the unsuccessful twenty. The counsellor-at-law, who, perhaps at forty years of age, begins to make something by his profession, ought to receive the retribution, not only of his own so tedious and expensive education, but of that of more than twenty others who are never likely to make anything by it. How extravagant soever the fees of counsellors-at-law may sometimes appear, their real retribution is never equal to this."

The average gains of practitioners at the bar are reduced by the great number of those who enter the profession without depending upon it for support, as they have independent means of livelihood, and desire only a genteel excuse for doing nothing. Some, also, have recourse to the law, because it is not only a highly reputable business, but is an easy mode of making the transition to political life. Many thus appear to be waiting for clients, who are really on the lookout only for a chance of being elected to the legisla-

ture or to Congress. Though these two classes of persons do not enter actively into the competition for fees, their presence diminishes the chances of success for those who hope to rise in the profession; some business occasionally falls into their hands, and they increase the crowd in the midst of which merit and ability often remain hidden from the world. Hence, as Adam Smith remarks, while the ordinary income of shoemakers and blacksmiths exceeds their ordinary expenditure, it will be found that the annual gains of the lawyers, as a body, bear but a small proportion to their annual expenses.

I do not mean that success is more doubtful at the bar than in any other business. In this country, undoubtedly, trade is equally uncertain; for it is said that three fourths of those who engage in it become insolvent in the course of the first five years; and of those who escape the gulf of bankruptcy, not one in ten succeeds in amassing a fortune. But "uncertainty of success," as Mr. Senior remarks, "cannot well affect the Wages of common labor, since no man, unless he be to a certain extent a capitalist, unless he have a fund for his intermediate support, can devote himself to an employment in which the success is uncertain." He remarks, moreover, "that there are two sorts of uncertainty. In some cases, the hazard is essentially connected with the employment itself, and recurs, in about an equal degree, at every operation. Smuggling and the manufacture of gunpowder are instances. Experience and skill may somewhat diminish the risk; but the best smuggler and the best maker of gunpowder probably each suffers in average amount of loss. But there are employments in which success, *if once attained*, is permanent. Such is often the case in mining. That mining is generally the road to ruin is notorious in all mining countries; but there are miners who have never suffered a loss. The same may be said of the liberal professions. Granting them to be as uncertain as Adam Smith believed them to be, the evil to which that uncertainty refers is experienced only by those who fail. To those who succeed, they afford a revenue eminently safe and regular. Their uncertainty is personal. It arises from the error to which every man is subject when he compares his own qualifications with those of his rivals. If he be found on the actual trial inferior, his failure is irretrievable; in the other alternative, his success is as permanent."

The inequalities thus far considered proceed from causes that are inherent in the employments themselves. But there are others which arise from the peculiar laws and customs of different nations, and which operate by obstructing the competition that would otherwise reduce Wages and Profits to a level. If other things are equal, and if persons are left to their own choice, they will flock into the occupations that are more lucrative, and will desert those which are less productive, until the increased supply of labor and capital in the former and the diminished supply in the latter bring about equality between the two classes. But people are not always left to themselves; hindrances often exist, sometimes created by the laws, sometimes only by the habits and feelings of the people, which obstruct the free movement of labor and capital from one occupation to another.

The most remarkable of the hindrances existing by force of law are the exclusive privileges that were granted to the corporations, or guilds of trade, which formerly existed in almost every city in Europe, but which are now rapidly dying out. All the persons practising any one art or trade in a particular city — such as the tailors, the brewers, the tanners, the goldsmiths, etc. — were united into a company, which received from the government by charter the exclusive right to practise their vocation. The competition in this art or trade was thus restricted to those who had been made free of the company; and no person could become free of the trade till he had served an apprenticeship to it, usually for seven years, and had complied with other regulations, which were often intentionally made numerous and vexatious, in order to prevent too many persons from entering the business and diminishing its profits. Thus, the number of apprentices which each master might have was often determined by law, and sometimes a heavy fee or fine was exacted before the apprentice who had completed his term could become free of the craft. "In their greatest prosperity, these fraternities, more especially in the metropolis, became important bodies, in which the whole community was enrolled; each had its distinct common hall, made by-laws for the regulation of its particular trade, and had its common property." Membership became the principal avenue of admission to the general franchise of the municipality; and as the impediments to becoming freemen were multiplied, the management of civic affairs

gradually fell into the hands of a little oligarchy. Sometimes the royal charters expressly vested the local government, and even the immediate election of members of Parliament, in small councils, originally nominated by the Crown, and ever after self-elected.*

"All such incorporations," says Adam Smith, "were anciently called *Universities*, which indeed is the proper Latin name for any incorporation whatever. The University of Smiths, the University of Tailors, etc., are expressions which we commonly meet with in the old charters of ancient towns. When those particular incorporations which are now peculiarly called *Universities* were first established, the term of years which it was necessary to study in order to obtain the degree of Master of Arts appears evidently to have been copied from the term of apprenticeship in common trades, of which the incorporations were much more ancient. As to have wrought seven years under a master properly qualified was necessary in order to entitle any person to become a master, and to have himself apprentices in a common trade, so to have studied seven years under a master properly qualified was necessary to become a Master, Teacher, or Doctor (words anciently synonymous) in the liberal arts, and to have scholars or apprentices (words likewise originally synonymous) to study under him."

The ostensible purpose of the incorporated trades was, like that of our modern inspection laws, to insure the good or merchantable quality of the commodities offered for sale; this end it was proposed to effect by ordaining that the articles should be manufactured only by practised and skilful workmen, who had served a full apprenticeship to the craft. But, as Adam Smith remarks, "the institution of long apprenticeships can give no security that insufficient workmanship shall not frequently be exposed to public sale. When this is done, it is usually the effect of fraud, and not of inability; and the longest apprenticeship can give no security against fraud." The inspection-mark upon a barrel of flour, or salted meat, or pickled fish, or the name of the manufacturer

* These incorporated trades must not be confounded with what are commonly called *corporations*, instituted for manufacturing, banking, turnpike, or railroad purposes, here in America; though the similarity of name and origin has directed much unfounded political odium against the latter. The old guilds of trade were proper *monopolies*, no other persons being permitted to exercise the craft which was their special vocation. But our modern corporations have no exclusive privileges: any individual, or another incorporated company, may begin competition with them in the same town or village.

printed upon a bale of cloth, is a much better guaranty of the quality of the article. Besides, long apprenticeships are not needed, as the mystery of any handicraft can be learned in less than a year, so that the operative can work, not as speedily indeed, but as well — that is, he can turn out as perfect an article — as any veteran in the business. At any rate, he will be the quickest to learn, who has the prospect of being fully paid just as soon as he can complete the article in a workmanlike manner, and who is furthermore required to pay for the tools and materials that he spoils. The real purpose of the guild was to maintain a monopoly of the trade, under the cover of which purchasers were obliged to take what they offered for sale at such prices as they chose to affix, or to do without the commodity altogether. Individual members of the company, it is true, might compete with each other; but their competition was always subject to the by-laws enacted by the council of the guild.

Old expedients come up for renewed trial, after the lapse of centuries, with only a change of name. The modern Trade-Unions, strikes, and associations of operatives, are but the ancient guilds revived, their avowed object being to raise Wages and prices by diminishing the number of competitors. Even here in America, where the utmost freedom of competition has been the life of trade, and there are fewer restrictions upon industry, either legal or consuetudinary, than in any country upon earth, at a certain strike of the journeyman printers, the Union required that only a fixed number of apprentices should be employed in each office, in proportion to the number of journeymen in it; and that women or girls should not be employed to set types, though it is an occupation in which they are nearly as well fitted to excel as in the use of the needle. Mr. Laing seriously argues in favor of such measures, on the ground that "labor itself is a property, entitled to legal protection as much as land, or goods, or any kind of property that labor produces"; and that "the supply of the public with all the articles of handicraft, or labor of skill, [should be] confined to those who had acquired a property in that labor."

Here appears to be a confusion of thought; labor is rightly considered as property, and is most effectually protected as such, when it can be applied to any purpose, or in any occupation, which the laborer prefers. To create any impediment to the

transition of labor from one employment to another is not to protect, but to violate, the essential rights of industry. To give to any individual, or any association, the monopoly of any article or any employment, is to create in the favored class a right of property in *other men's labor*, — that is, a right to prevent all other persons from selecting their own occupations, and making the best use that they can of their physical and mental powers. It is also to tax the whole community for the benefit of the favored class, by compelling the former to pay such a price for the commodity, or such Wages for the labor, as the latter may require. Prices are equitably adjusted, when the seller says to the purchaser, "Pay me what I ask, or manufacture the article for yourself." The ancient incorporated companies and the modern Trade-Unions say, "Pay me what I ask, or do without the article altogether; you shall not have the option of manufacturing the article for yourself." How does Mr. Laing suppose that the operatives in any craft, whether they have served a long apprenticeship to it or not, can have "acquired a property in that labor"? Unquestionably they are entitled to prosecute it themselves; but they have no right, either natural or acquired, to keep other persons out of the same employment.

Adam Smith takes a more correct view of the subject when he says: "The property which every man has in his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper, without injury to his neighbor, is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns."

These principles, however, are not of universal application; an exception should be made in the case of the restraints that are imposed by the laws of most countries upon admission into the learned professions. Usually, the purchaser is the best judge of

the quality of the goods that he buys; and the character of the person that he deals with; a regard for his own interest will protect him against fraud more effectually than any regulations which the government can devise. But it is not so when he buys the services of a physician. Health or sickness, life or death, then depends upon the competent information and skill of the person employed by him; and of these qualities he is a very poor judge, as sickness may have been a rare occurrence in his family. But the consequences of an error may be fatal, and the event indicates but very imperfectly the beneficial or injurious consequences of the medical treatment pursued. A plausible charlatan may easily impose upon the credulity of the public, and many valuable lives may be lost before his ignorance and presumption can be fully exposed. Most governments attempt to protect the community against such injury by multiplying restrictions upon irregular practitioners, and extending the full privileges of the profession only to those who have completed a prescribed course of education, and have obtained a diploma, or certificate of competency, from a board of duly qualified examiners.

I have already intimated that competition for employment is sometimes restricted, not only by law, but by the customs of the country, or by the habits and feelings of the people. In the United States, mobility of fortune, station, and employment is the most striking feature of society; no impediment is created by law or fashion to the most frequent and sudden changes of position and business. Thus an equalizing process is constantly going on with respect both to Wages and Profits; no one profession or employment can enjoy even a momentary advantage without sharing it among a crowd of competitors. In England, it is far otherwise; a well-established and clearly defined gradation of ranks has existed so long, and has so moulded the habits and expectations of the people, that comparatively few think of stepping out of the station or the business to which they were born. The larger emoluments and superior advantages of a different position hardly attract their notice, and certainly excite no emulation or regret.

In England, and, to a small extent, in some of the States of this country, an obstacle to the free circulation of labor is created by the poor-laws. A town or parish is bound to support those

paupers only who were born in it, or who, in various ways specified by the laws, have obtained a "settlement" within its limits. Sometimes, forty days' undisturbed residence were made sufficient for obtaining a settlement; more stringent regulations required that the person should have been assessed to parish rates and paid them, or should have served an apprenticeship there, or have been hired into service there and remained in such service for a full year. Those who have not complied with these requisites may be warned off, or sent home to the parish where they belong. Through such regulations, it is evident that there may be a superfluity of labor in one place, and considerable deficiency of it in another, and that industry may be very unequally compensated in different districts. Frequent litigation arises under the law of settlement, as the facts in each case are often imperfectly known or difficult to be proved; and cases of extreme hardship sometimes happen, as when a family reduced by poverty and sickness are forcibly removed to a distance from the place which they have chosen for their home, or are sent travelling over the whole country in search of the parish to which they rightfully belong. But, as already intimated, the evil is not one of much moment here in America, where the Wages of labor are high, and where there is but little pauperism among the native-born, and that little can be supported at insignificant expense. No great pains, therefore, are taken to prevent a person from obtaining a settlement wherever he likes.

Mr. Senior justly remarks, that "the difficulty with which labor is transferred from one occupation to another is the principal evil of a high state of civilization. It exists in proportion to the Division of Labor. In a savage state, almost every man is equally fit to exercise, and in fact does exercise, almost every employment. But in the progress of improvement, two circumstances combine to render narrower and narrower the field within which a given individual can be profitably employed. In the first place, the operations in which he is engaged become fewer and fewer; in a large manufactory, the man who is engaged in one of these operations has little experience in any of the others. And in the second place, the skill which the Division of Labor gives to each distinct class of artificers generally prevents whatever peculiar dexterity an individual may have from being of any value in a

business to which he has not been brought up. A workman whose specific labor has ceased to be in demand finds every other long-established employment filled by persons whose time has been devoted to it from the age at which their organs were still pliable and their attention fresh."

This subject is excellently illustrated by Mr. Laing, with reference to the qualifications of emigrants to perform the novel tasks imposed upon them by their change of residence. "Two hundred years ago," he says, "when the peopling of the old American colonies was going on, the great mass of the population of the mother country was essentially agricultural; but every working man could turn his hand to various kinds of work, as well as to the plough. He was partly a smith, carpenter, wheelwright, stonemason, shoemaker. The useful arts were not, as now, entirely in the hands of artisans bred to no other labor but their own trade or art; very expert, skilful, and cheap producers in that, but not used to, or acquainted with, any other kind of work. This inferior stage of civilization, in which men were not co-operative to the same extent as now, but every man did a little at everything, and made a shift with his own unaided workmanship and production, was a condition of society very favorable to emigration-enterprise and to colonization. It continues still in the United States, and is the main reason why their settlers in the backwoods are more handy, shift better for themselves, and thrive better, than the man from this country, who has been all his life engaged in one branch of industry, and in that has had the co-operation of many trades preparing his tools and the materials for his work.

"Another advantage for emigration in that state of society which we in Great Britain have entirely outgrown, was, that the female half of the population contributed almost as much as the male half to the subsistence of a family, especially an emigrant family. In the days of King James, and of Charles I. and Charles II., and down even to the end of the last century, the emigrant could reckon upon the household work of the females of his family as more or less profitable, and at least saving, by the production of all clothing material. In genteel families at home, all the family linen and cloth for common wear, and often some for sale in the country towns, was produced by household work. The progress of society to a higher state of material refine-

ment has entirely superseded such family production. Co-operative labor in factories supplies the public with much better and finer goods; and the public taste is so much refined by the continual enjoyment of finer articles, that the old mode and quality of production would not satisfy it now; but that former state was more favorable to emigration than our present more advanced social condition. There seems to be a stage in the progress of nations at which they can throw off swarms with most success. A nation, like an individual, may become too refined for colonizing; its social state too co-operative; men too dependent on other men for the gratification of acquired tastes and habits, which have become part of their nature, and interwoven with the daily life even of the poorer classes."

The case of household or home manufactures, here alluded to by Mr. Laing, is an interesting one, as it shows that, under certain circumstances, persons may be willing to work, and may find it profitable to work, for much less than the ordinary compensation of labor in their neighborhood. An agricultural family has considerable leisure time in the course of the year, the winter being a period of almost entire suspension of their customary tasks. This leisure they may profitably devote to any species of manufacture which can be pursued at home, at intervals, and without the aid of costly tools; for however poorly such labor may be compensated, its proceeds are all clear gain. The time would be entirely lost, if it were not thus employed. Thus, spinning and knitting may continue to be carried on by hand in many a humble family, long after the most perfect machinery for performing these processes has been invented, and the prices of the articles spun or knit have consequently been reduced to a very low rate. The family would not be enabled to subsist by devoting themselves entirely to these employments; but their subsistence being already secured by agriculture or some other adequately compensated labor, their leisure may be economized by such supplementary tasks, and a small addition be thus obtained to their slender income. The Swiss, a frugal and industrious people, are noted for having carried these home manufactures, especially of watches and toys, to a great extent, and for maintaining them against the formidable competition of British fuel, capital, and machinery.

A similar case is presented in the Wages of female labor, which are usually much lower than those of males. The reason is, that comparatively few women are solely dependent upon what they can earn for themselves; most of them have a husband, father, or brother by whom they are supported. Being fed from other sources, they can afford to perform at a very low price the few tasks that are deemed appropriate for their sex. So many of them are willing to work upon these terms, in order to obtain, not a livelihood, but the means of copying a new fashion, or of purchasing a coveted article of furniture or a bit of finery, that Wages in their whole department of industry are permanently depreciated; and the few women who are unfortunate enough to be thrown wholly upon the fruits of their own industry for subsistence are reduced to great straits. Thus, sewing is a peculiarly feminine occupation, and is therefore more inadequately paid than any other species of manual labor. Hood attracted the attention and sympathy of all England for the hard fate of the needlewomen of London; and novelists have woven many pathetic fictions out of the sorrows of governesses. The menial services of females are better paid, in America at least, than any other species of woman's industry; a good cook sometimes earns more than an accomplished teacher, and certainly finds it easier to obtain employment. The meanness, or, as most women consider it, the degrading character, of the employment, must be compensated by high money-Wages.

CHAPTER XI.

CAUSES WHICH AFFECT THE RATE OF PROFITS: LIMITED EXTENT OF THE FIELD FOR THE USE OF CAPITAL: THE THEORY OF GLUTS.

CAPITAL being amassed, as we have seen, by frugality or abstinence, Profits are the reward of *abstinence*, just as Wages are the remuneration of *labor*, and Rent is the compensation for the use of *land*. Labor, capital, and land are the three instruments of production; and therefore the exchangeable value of everything produced is resolvable into three component parts, — Wages,

Profits, and Rent. To adopt Adam Smith's language, "In *every* society, the price of every commodity finally resolves itself into some one or other, or all, of these three parts; and in every *improved* society, *all the three* enter, more or less, as component parts, into the price of the far greater part of commodities." In the origin of society, fertile land being abundant or equally distributed, so that there is no monopoly, Rent does not exist, and the whole value of the thing is resolvable into Profits and Wages.

But under ordinary circumstances, or in every stage of society above the lowest degree of barbarism, all three of these elements concur to make up the value of every article produced. "In the price of corn, for example," says Adam Smith, "one part pays the Rent of the landlord, another pays the Wages or maintenance of the laborers employed in producing it, and the third pays the Profit of the farmer. These three parts seem, either immediately or ultimately, to make up the whole price of corn. A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer, or for compensating the wear and tear of his laboring cattle and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a laboring horse, is itself made up of the same three parts, — the Rent of the land upon which he is reared, the labor of tending and rearing him, and the Profits of the farmer who advances both the Rent of this land and the Wages of this labor."

Capital may be largely productive of wealth, though the Profits, or share of the value created which comes to the capitalist, may be relatively small; for the larger portion of the value produced may be absorbed in the payment of Rent and Wages. "As any particular commodity comes to be more manufactured, that part of the price which resolves itself into Wages and Profits comes to be greater in proportion to that which resolves itself into Rent. In the progress of the manufacture, not only the number of Profits increase, but every subsequent Profit is greater than the foregoing; because the capital from which it is derived must always be greater. The capital which employs the weavers, for example, must be greater than that which employs the spinners, because it not only replaces that capital with its Profits, but pays, besides, the Wages of the weavers; and the Profits must always bear some proportion to the capital."

Still it is true, in the last analysis, as already stated, that the creation of all value may be traced to labor alone. Capital itself is created by labor, and may be called *consolidated* or *invested labor*. It consists of the economized or reserved fruits of *previous* labor; so that Profits are only the compensation of *former* industry, just as Wages are the compensation of *present* industry. What is usually called Rent, also is, in great part, only the compensation of the labor and capital that have previously been expended upon the land, and so closely incorporated with it that the original and the acquired properties of the soil can no longer be distinguished from each other. The greater part of what is popularly termed Rent, then, is nothing but Profit, or, in other words, the Wages of past industry. Ground-Rent in cities and towns, being paid for the mere space or room on which buildings may be erected, is perhaps the only instance of Rent properly so called. According to Ricardo, Rent is the compensation for the original and inherent properties of the soil; then it is not, strictly speaking, the reward of an agent that has concurred in the production, but is only a share, appropriated on the *monopoly* principle, of the previously existing value. These original properties of the soil are the free gift of Nature; like the air and the light, they cost nothing to anybody. But as they are not inexhaustible in amount, — at least in localities where they are most needed, — they are appropriated by individuals, and, through the monopoly thus created, a tax is levied upon the producers of value.

But when Profit is spoken of as the third component part of value, there is an ambiguity in the meaning of the word which deserves attention, as it is the source of several of Mr. Ricardo's paradoxes. In the ultimate distribution of the price or value, the whole share which falls to the capitalist is called Profit by Ricardo; but this includes *the replacement of the capital* which he *originally vested* in the undertaking, as well as that *enlargement* of this capital in the process of production which alone is usually denominated Profit. What this Economist calls Wages, also, is only the *share* or *proportion* of the finished product which is received by the laborer; as what he terms Profit is the *share* or *proportion* of the same product which accrues to the capitalist. Thus, Rent being a fixed sum, to be first deducted from the total value, without any reference to the comparative amount of Wages and Prof-

its, what remains after this deduction is to be divided between the laborer and the capitalist. According to Ricardo, indeed, Rent, is not an element in the Cost of Production, — does not enter into Value at all; for the poorest land in cultivation yields no Rent, and the Value is regulated by the Cost of Production on this poorest land. Hence Mr. Ricardo was led to affirm, that "nothing can affect Profits but a rise of Wages"; that "whatever raises the Wages of labor lowers the Profit of stock"; and that, "as the Wages of labor fall, the Profits of stock rise." Summing up the whole doctrine in one theorem, he maintains that high Wages and high Profits are incompatible, since whatever is added to the one must be taken from the other. He proposes to divide the whole value produced into two parts, giving the name of Wages to the one, and of Profits to the other; and *if his nomenclature is correct*, the truth of his doctrine is self-evident. When a given quantity is to be divided into only two parts, it is manifest that either one of these parts can be enlarged only at the expense of the other; they must vary in the inverse ratio of each other.

But few words are needed to expose this paradox. When words are taken in their ordinary acceptation, it is certain that high Wages and high Profits often go together, and tend to produce each other. The rates of both are considerably higher in the United States than in Great Britain; both are much higher in California than in New York. When a capitalist is making large Profits, he is eager to extend his business, to employ more hands, and consequently he offers higher Wages. A fall in Wages is symptomatic of a decline in business, and a general depreciation of Profits. Fawcett, an English Economist, says (in 1865), "it is quite certain that, during the last few years, emigration has produced a very considerable advance in the Wages of all our laborers, and yet I believe that the rate of Profit obtained by employers has increased, instead of being reduced."

But it should be distinctly understood, that we here mean by Wages, not the *proportion* of the finished product that falls to the laborer, but the *amount*, the quantity and quality, of the commodities which he can purchase with the results of his day's labor. If a journeyman carpenter is able to buy one fourth of a barrel of flour with his day's wages, while a seamstress can obtain only one tenth of a barrel with hers, then the Wages of

the former are two and a half times greater than those of the latter; and this would be true, though the carpenter received only 80 per cent of what his day's work sold for, while the seamstress was paid 90 per cent of the value of hers. In like manner, "Profits are not measured by the proportion which they bear to the rate of Wages, but by the proportion which they bear to the capital by the agency of which they have been produced." If a farmer, to borrow Mr. McCulloch's illustration, employs a capital amounting to 1,000 bushels of grain, paying 700 of it for Wages, and 300 for seed and other expenses, then, if the return at the end of the season be 1,200 bushels, his Profit is 200 bushels, and his rate of Profit is 20 per cent. Mr. Ricardo would say, that the total product, 1,200 bushels, is divided into Profits and Wages in the proportion of 5 to 7, inasmuch as the laborers received seven twelfths of it, and the capitalist only five twelfths; — a doctrine which is correct as he understands it, but which is calculated only to mislead, if words are taken in their ordinary meaning.

Again, a capitalist may receive 90 and the laborer only 10 per cent of the finished product, say, of one barrel or one coat. And yet Wages may be very high, for the laborer may manufacture 10 barrels or 10 coats in one day, and so receive great gains. Rate of Profits is determined by proportion of amount received to *Capital* employed; but rate of Wages, by proportion of amount received to *Time* employed.

Several things are usually confounded under the name of Profit, which must be clearly distinguished from each other before we can gain a clear view of the circumstances on which the rate of Profit, at any given time and place, depends. The general principle is, that Profits *tend* to an equality in all employments and in all localities. I do not say that they *are* equal, or that they must *become* equal. But an equalizing process is constantly going on; for if the gains in one department of enterprise are notoriously above the average, — if it is even suspected by a multitude of sharp-sighted observers, who are on the lookout for such opportunities, that they exceed the average, — more capital is at once attracted into the employment, till, by the competition of the capitalists with each other, the rate of Profit is reduced to the common standard in other enterprises.

But though Profits *tend* to an equality in different employments, it is equally certain that there is a great seeming inequality in them, most of which can be readily explained by a reference to the several really distinct elements which are usually confounded under the general name of Profits. Thus, among those who superintend the application of capital, — *entrepreneurs* the French call them, *managers* is the nearest English appellation, for they are not always the *owners* of the capital which they manage, — there is every degree of skill, enterprise, and intelligence; the gains vary, of course, in proportion as these faculties are exercised. The prudent and sagacious merchant makes a fortune out of the very business from which a dozen of his competitors may retire as bankrupts. Only those who are successful continue in the business for a long time; and the average of the gains of such persons is found greatly to exceed the ordinary rate of Profits. Obviously, however, their gains are not all to be reckoned as Profits, strictly so called; a large portion of them are to be considered rather as the Wages of labor, or as the salary paid to an unusually skilful person for managing the concern. This portion — *the wages of management* — being deducted from their total gains, it is only the remainder which can properly be regarded as Profit, and can have its rate compared with the rate of Profits in other employments, with which it will be found to agree. These Wages for skilful management often rise to a very high point; some railroad and manufacturing corporations have found it for their advantage to pay to their general agent or manager a higher salary than the government of the United States paid to its Minister to Great Britain, or than it now pays to the Chief Justice of our Supreme Court. If this person, instead of acting as an agent for others, should enter into business on his own account, and trade with his own capital, we ought to subtract $ 10,000 a year from his annual gains, before those gains are considered as any indication of the general rate of Profit in his business.

Again, *the risk* incurred varies much in different employments. If, in a particular business, three ventures out of four fail altogether, or result in a loss, the gains of the fourth venture, on an average, must be high enough to compensate for all these losses, and to afford at least the ordinary rate of Profit for the capital required during all the time which is consumed by all four

ventures. During the war of the Rebellion, the gains of blockade-running between Nassau and the coast of the Carolinas were so great, that though three ships out of four were captured or lost, the Profit on the return cargo of the fourth ship was large enough to make the business a lucrative one to the merchant. The true rate of Profit, then, must be calculated only after one deduction is made from the total gains as *insurance* against loss, and another for *Wages of management*.

But here another element comes in to modify our calculations, — an element already once mentioned as "the lottery principle in human nature." So much does the prospect of splendid gains outweigh, in the estimation of sanguine and adventurous persons, the chances of loss, that an undue proportion of capital is attracted into some very uncertain employments, and, the rate of Profit in them is consequently reduced to a very low point, — often, indeed, to nothing or less than nothing. There is no doubt that the *average* gains in a trade in which large fortunes may be made, — in our own flour-trade, for instance, or in stock-jobbing, — "are lower than those in which gains are slow, though comparatively sure, and in which nothing is to be ultimately hoped for beyond a competency. In such points as this, much depends on the characters of nations, according as they partake more or less of the adventurous, or, as it is called when the intention is to blame it, the gambling spirit. This spirit is much stronger in the United States than in Great Britain; and in Great Britain than in any country on the Continent of Europe. In some Continental countries, the tendency is so much the reverse, that safe and quiet employments probably yield a less average Profit to the capital engaged in them than those which, at the price of greater hazards, offer greater gains."

The moral character of individuals — or, at any rate, the estimation in which they are held in the community — is affected by the comparative prevalency of the gambling spirit. Here, the standard phrase for a "failure," or an act of bankruptcy, is "misfortune in business"; — that is, *fortune* only is blamed, the *individual* is pitied, and the sympathy of his companions and former rivals helps him to try again. The reason why the act is so leniently viewed is, that it is so frequent; no one can conscientiously blame his neighbor for what is so likely to happen to himself, — for

what, perchance, has happened to himself more than once. Still, in estimating the Profits of trade as compared with those of agriculture, the professions, and the mechanic arts, the number and amount of such failures must be taken into view, or our calculations will be very wide of the truth. The prevalence of this speculating or gambling spirit is undoubtedly one of the reasons why the rate of interest in this country continues so high; lenders are affected with it as well as borrowers, and will incur great hazards when tempted by usurious rates.

In England, bankruptcy is a more serious matter. The bankrupt not only loses credit; he also, to a great extent, loses caste. He is a dishonored man, whose sense of personal degradation is not infrequently so keen as to drive him to suicide. Sydney Smith wittily remarks, that an Englishman's idea of Paradise is a place where people always pay their debts. Hence the opprobrium incurred by our repudiating States was so much greater in England than in this country, and was expressed with so much bitterness as absolutely to goad and sting the defaulters into a sense of the heinousness of their act, and an attempt to retrieve their reputation. And yet, serious and wholly indefensible as was the breach of faith on the part of the defaulting States, the complaints of the English bond-holders were exaggerated and unreasonable. They knowingly incurred a greater risk, for the sake of obtaining a higher interest; they deliberately preferred investment at considerable hazard in American funds at six per cent, to a perfectly safe investment in English government funds at three per cent, and therefore had comparatively little ground for complaint when a portion of their hazardous investment turned out unfavorably.

In France, the lot of the bankrupt is still more severe; he not only loses his social position, but the law prevents him from engaging in any other business on his own account till he has redeemed his outstanding obligations.

I have dwelt upon these circumstances affecting the rate of Profits, because they illustrate the principle already stated, that the theory of Political Economy is but an exposition of human nature as it appears when engaged in the pursuit of wealth. The rate of Profits varies according to the opinions, and habits of mind and action, of those who apply capital to productive uses. The money-getting propensity is but one tendency or phasis of human

nature, and it is constantly modified and controlled by the other passions and habits of men, with which it is blended, and among which it is by no means the strongest.

Another illustration of this general principle is found in a circumstance just alluded to, — the extraordinary fluctuations of the grain and flour market in this country, — fluctuations which are so great and frequent as to put all calculation at defiance, and to make the gains of the dealers nearly as uncertain as the chance of drawing a prize in a lottery. As the results of successful speculation in this branch are very brilliant, and as bankruptcy is no disgrace, the business is probably more overdone — that is, the *average* rate of profit is lower — than in any other enterprise whatsoever. Flour may be five dollars a barrel in New York at the beginning of the season, may rise to twelve dollars in the course of the summer, and fall even below its starting-point when the next crop comes in. The effect of such changes as these on the business of a dealer who has a stock of a quarter of a million of barrels at a time may be easily seen. He may literally gain or lose one or two millions of dollars in one season. How are such fluctuations possible? At the first sight, it would appear that the price of breadstuffs would be the most stable of all prices. The quantity needed, the number of mouths to be satisfied with food, varies by a fixed and well-known law of increase from year to year. The average crop over a country so extensive as this varies but little; a bad harvest in one State is compensated by an unusually good one in another. And should there be any marked deficiency or excess, foreign commerce stands ready, as usual, to equalize the market by distributing the aggregate product uniformly where it is most needed.

But the vast quantity of the article which is produced and consumed every year, and the fact that it is also an article of prime necessity for all classes of people, introduce a new element into the calculation. The hopes and fears of men are strongly excited in relation to a product on which not merely comfort, but life, depends, and the use of which is absolutely universal. Its price rises and falls, not merely in proportion to the deficiency or excess of the crop, but to the alarm and the spirit of speculation which are excited by that deficiency or excess. A failure of one sixth of the crop, instead of raising the value in the market only

in that proportion, will often double the price; a surplus of not more than an eighth of the average annual harvest may sink the price below the actual cost of production. A mere rumor of an apprehended partial failure of the crop in England has power to raise the price of grain and flour from five to twenty per cent on the banks of the Ohio. *Necessaries* must be had at any cost, so that their price will rise in a higher proportion than the diminution of the supply. But the price of *luxuries* will be more stable, as any considerable enhancement of their cost induces many persons to give up the use of them altogether.

What Mr. Mill calls "the perpetual overflow of capital into colonies or foreign countries, to seek higher profits than can be obtained at home," is certainly a powerful agent in equalizing the rates of Profit in different lands. But that it is not so efficient for this purpose as we might be tempted, at first thought, to imagine, appears from the notorious fact, that the rate of interest for money is twice as high here as in Great Britain. This difference of rate would be greater than it is, if British capital were not occasionally sent hither in large amounts. But why is not the migration sufficient to equalize the rates at once, since every man would prefer to receive six, rather than three, per cent for his money?

Several answers may be given to this question. In the first place, the capitalist is not often willing to emigrate along with his capital. He is bound to his native soil by many ties of feeling and interest, which he cannot easily sever, and which, being at any rate in easy circumstances, he is under no strong temptation to break. He must be separated from his property, then, and the distance of the place of investment, other things being equal, enhances the risk; no one likes to trust his capital in operations that he cannot oversee, to individuals of whom he knows but little, or to places where it will be controlled by laws and institutions differing from those with which he is familiar. War may possibly break out between the two countries, or their peaceful relations be so far disturbed that the profits cannot be remitted with regularity, or perhaps the principal itself may be lost. Lastly, the sentiment from which no man is entirely free — a sentiment which may be dignified by the name of patriotism, or branded as national prejudice — prevents the

credit of foreigners from being fairly estimated. Public affairs may be more widely and accurately known than private enterprises; foreigners, therefore, usually prefer government stocks to other means of investment. Next to these, chartered companies, whose transactions are large and of a public character, enjoy a preference.

But on the whole, capital is every day assuming more of a cosmopolitan character, and the time when the rates of interest will become nearly equal in all commercial countries cannot be far distant. "The inequality in the rate of Profit throughout the civilized world," says Mr. Senior, "is much less than the inequality of Wages. And as the general progress of improvement tends more and more to equalize the advantages possessed by different countries in government and habits, and even in salubrity of climate, the existing inequalities of Profits are likely to diminish."

In English systems of Political Economy, the theory of the circumstances which determine the average rate of Profit, as well as the doctrine respecting the average rate of Wages, is a deduction from the theories of Malthus and Ricardo respecting Population and Rent. English writers upon the subject are ambitious to erect Political Economy into the rank of a deductive science. They begin with a few postulates or universally recognized facts; they trace these to their consequences, under the law of competition, by a course of abstract reasoning; and they attempt to make the results thus obtained square with observed facts by the method of exhaustion, — eliminating, evading, or explaining away all the phenomena that do not coincide with the theory. This method has elevated some startling paradoxes into the dignity of first principles of the science; he who does not possess the key to them, or is incapable of explaining them by reference to the very few and simple facts which alone are admitted to be the proper data of the science, is held to be unworthy of mingling in the discussion. Hence an offensive tone of assumption and dogmatism has crept into the writings of the expounders of the system, and the breach between scientific Economists and practical business men is unnecessarily and injuriously widened. We hold that the better method is to begin with a large induction of facts, and to reason from these up to the principles of human nature from which they proceeded, and in which they find their explanation.

Some of these paradoxes we have already reviewed, and traced them to their origin in the assumptions, or arbitrarily limited definitions, which have been made the basis of the science. Thus, it is assumed that the growth of the Population everywhere tends to outrun the increase of the means of subsistence; and the inference is, that the natural or necessary standard of Wages is the smallest sum that will furnish the laborer with what his class in society regard as the necessaries of life. It is assumed that the most fertile soils are always the first to be cultivated, and that the Population, as it increases, remains on the same spot; and the inferences are, that additional food is always obtained at a disadvantage; that additional capital can never be applied to the land but with constantly diminishing returns; and hence, that the increase of the Population anywhere, and under all circumstances, is an evil; — a paradox of the most startling kind, inasmuch as the common sense of mankind has everywhere taken it for granted, that the rapid growth of the Population is one of the most unfailing indications of great prosperity. Profits are arbitrarily defined to be, what remains to the capitalist from a division of the whole value created between him and the laborer, Rent having been previously deducted; and the inference is, that high Wages and high Profits are incompatible; whereas it is matter of the commonest observation, that they vary together, high Wages being incompatible with low Profits. Again, it is assumed that individuals are always the best judges of their own interests, that nations are composed only of individuals, and that individual and national interests are identical; and it is inferred, that, as it would be unwise to place restrictions upon trade between individuals, so it would be impolitic to put any fetters upon international commerce; but that a little kingdom like Denmark should be exposed, in every branch of her industry, to the overpowering competition of the immense capital and other resources of a great nation like England. Yet it is certain, as Mr. Rea remarks, that individual and national interests are *not* always identical, because individuals often grow rich by the *acquisition* of wealth previously existing, but nations by the *creation* of wealth that did not before exist; and we have already seen (pp. 30, 31) that private persons may be impoverished by the conversion of artificial into natural wealth, though nations are always benefited by this process.

But we return to a consideration of the circumstances that determine the average rate of Profits. The phenomenon which needs to be explained by any theory upon this subject is the gradual but sure declension of the rate of Profit in all countries, as their population and wealth are augmented. The growth of national opulence resembles that of the human body. It is most rapid in infancy, the body usually doubling in weight during the first year of its existence. In early childhood, the growth is still quick, though not so rapid as at first; and it steadily declines, as the child approaches maturity, till at last it reaches its stationary point in full manhood. Adam Smith long ago remarked, that in a new colony, which is "more understocked in proportion to its territory, and more underpeopled in proportion to the extent of its stock, than the greater part of other countries," Profits are very large, and the rate of interest is consequently high. "As the colony increases, the Profits of stock gradually diminish"; and "in a country fully stocked in proportion to all the business it had to transact, the competition would everywhere be as great, and consequently the ordinary Profit as low, as possible."

Thus, in California, soon after its cession to the United States and the discovery of its gold-washings, Profits rose with unexampled rapidity, and the current rate of interest was from thirty-six to forty-eight per cent a year. These extravagant rates, however, soon began to decline, and they are now not much higher than in New York. Similar changes have taken place in Australia, since the discovery of gold in its southern region. I have already observed, that the rate of interest in England, which was over ten per cent in the early part of the sixteenth century, slowly but steadily declined, till it reached its present ordinary rate of three per cent. I have also cited the case of Holland, which seems to have attained the stationary state over a century and a half ago. The rate of interest there, on government security, had then fallen to two per cent, the lowest point ever generally established through a whole country that is known in the history of commerce. For fifty years before this stage was attained, — that is, during the latter half of the seventeenth century, — the Dutch were the most active commercial and manufacturing power in the world. Their colonies were scattered over both hemispheres, and their sails whitened every sea. They had almost exclusive control of the

carrying-trade, and the Navigation Laws of the English were enacted for the avowed purpose of wresting a portion of this traffic from them. Having touched the zenith of their fortunes, the Dutch did not begin to decline, but simply remained stationary, while other nations, England especially, have in their turn risen to be masters of the commercial world.

And the same cause which opposes a necessary limit to the growth of national opulence, and which long ago checked the progress of Holland, threatens now to stay the course of English prosperity. There are the same symptoms of a relaxation of the energies of the system, as the organs become distended with over-abundant wealth. The rate of interest is with difficulty maintained at a point above that where it rested in Holland a hundred and fifty years ago; the Bank of England is now often driven to discount private paper at only two and a half per cent. But for the overflow of English capital into colonies and foreign countries, and for a commercial crisis, which often sweeps away a great amount of capital to the manifest advantage of what is left, just as a gush of blood from the nose sometimes relieves a patient who is in danger of apoplexy, the tide would have turned in Great Britain some time since, leaving the people not exhausted, but satiated. During the last thirty years, the English have thrown away capital enough upon South American and Mexican mines, Spanish and Greek funds, and railroads, to serve as a good basis for the opulence of another country of equal population. Fawcett says, "England supplied £13,500,000 for the Grand Trunk Railway of Canada; and since 1853, we have subscribed £40,000,000 for Indian Railways."

This constant downward tendency of the rate of Profit is a phenomenon to be explained, for it is the opposite of what we were prepared to expect. As capital accumulates, experience is enlarged and skill perfected; it would seem, then, that labor, being more abundantly supplied with the means for its most effectual exercise, would be most successfully applied, and would produce the largest and most profitable results. True, the prices of commodities fall as the cost of their production is diminished. But there seems to be no reason why they should fall *more* rapidly than the cost of the articles declines; and therefore we cannot see, at the first glance, why the rate of Profit should be diminished, — why it

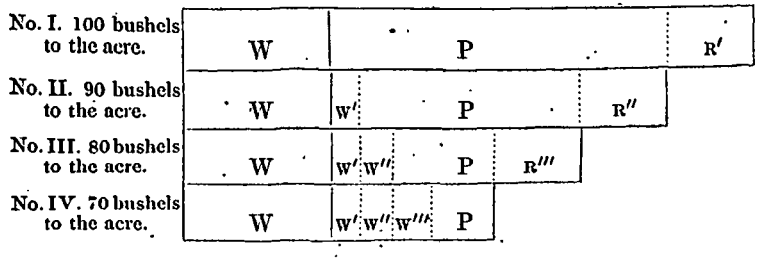
should be less than when men work at great disadvantage, under all the privations and difficulties incident to the attempt to found a new colony.

Adam Smith ascribes this fall of Profits in some measure to the competition of capitalists. "When the stocks of many rich merchants," he says, "are turned into the same trade, their mutual competition naturally tends to lower its Profits; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all." But the objection is properly made, that competition can tend only to equalize Profits in different employments and different places. It can make the Profits of cotton-spinning equal to those in the iron manufacture, and can reduce the gains of merchants in New York to a level with those in Boston; but it furnishes no reason why the average rate of Profit in all employments, and at all places, should be depressed. To produce this effect, there must be something to come into competition with capital itself, — some other agent, which shall render industry equally effective; and we have no such agent, and cannot even conceive of one.

Ricardo and his followers attempt to solve the problem by reasoning, in their peculiar way, from a few assumptions. With them, as I have said, the doctrine of Profits is a deduction from the Malthusian theories of Population and Rent. The value of every commodity being divisible into the three elements of Rent, Wages, and Profits, whatever cause tends to augment the two former, or even to increase but one of them without an equivalent reduction of the other, must certainly lessen the third element, which is all that remains for Profit. Such a cause is found in the necessity, created by an ever-increasing population, of constantly having recourse to inferior soils, and thereby of perpetually augmenting the Rent of the lands which were previously under cultivation. But if Rent is increased, there remains a smaller portion to be divided between Wages and Profits. Still further; there is a limit to the depression of Wages, but there is none to the fall of Profits. The natural and necessary rate of Wages, according to these theories, as has been already explained, is the smallest sum that will supply the laborer and his family with what are believed to be the necessaries of life. As the cost of food

is increased, therefore, by the necessity of cultivating inferior land, the expense of supplying the laborer with food is also increased, and his Wages must rise. The portion remaining for Profit is thus diminished, as it were, at both ends; as the Population increases in number, from the value of every commodity a constantly increasing share must be cut off for Rent, and another regularly augmented portion must be deducted for Wages. Obviously, but a small portion, and that perpetually becoming less, remains for Profit. "In one brief formula," says Mr. De Quincey, "it might be said of Profits, that *they are the leavings of Wages;* so much will the Profit be upon any act of production, whether agricultural or manufacturing, as the Wages upon that act permit to be left behind."

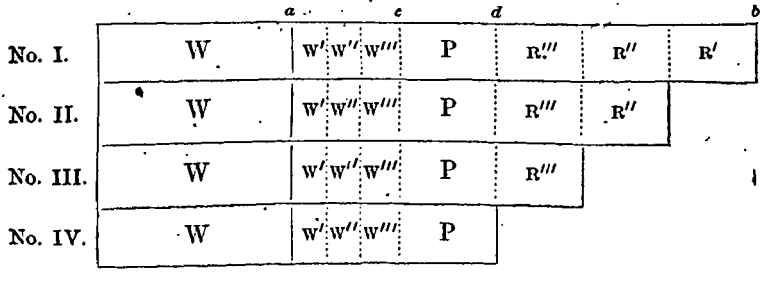
The following diagram, also borrowed with some modification from Mr. De Quincey, may not only make this clearer, but may illustrate the peculiar character of Ricardo's reasoning, — the strict, logical deduction from a few arbitrarily assumed premises, little or no regard being paid to the modifying circumstances in a case which is obviously a very complicated one.



Here No. I., the upper parallelogram, represents land of the first quality, yielding one hundred bushels to the acre. As soon as No. II. is called into use by the increased demand for food, the increased price of that food will pay ordinary Profits and Wages for the cultivation of land yielding only 90 bushels an acre; and therefore R′, representing 10 bushels an acre, will be left for the rent of No. I., though it yielded no rent before No. II. was cultivated. But this enhanced price of food renders necessary also an advance of Wages, because the Wages formerly paid were barely sufficient to purchase the necessary food for the laborer's family at the old price. Hence this increment of Wages, repre-

sented by w‴, must also be cut off from P, which is at the same time lessened by the deduction of r′. When a further increase of the population brings into use No. III., yielding only 80 bushels, both r′ and r″, representing 20 bushels, must be deducted from No. I.; and r″, or 10 bushels, from No. II., for Rent. So, also, w″ must be deducted for a further rise of Wages. In like manner, when No. IV. is broken up for tillage, r′, r″, and r‴ will be paid for Rent on the soils of a higher quality, and w′, w″, and w‴ will be the successive additions to the original rate, W, of wages. So long as No. IV. is the poorest land in cultivation, its whole produce will be absorbed in the payment of Profits and Wages, and nothing will be left for Rent.

The preceding diagram is constructed only to show the *successive* deductions that are made from Profits to pay Wages and Rent. It does not represent the whole state of the case, after tillage has been brought down to No. IV.; for as there can be but one rate of Wages at the same time, w′, w″, and w‴, or the successive increments of Wages, must be deducted from the three higher classes of soils, as well as from No. IV. The following construction, then, shows how little remains for Profits after No. IV. has come into use.



Here P, representing Profits, extended from *a* to *b* when only No. I. was in cultivation, but reaches only from *c* to *d* after tillage has descended to No. IV.

This diminution of the rate of Profits must go on indefinitely, so long as the increase of the population obliges us to have recourse to soils of constantly diminishing fertility. Rent at the same time will be proportionally augmented; the landholder will receive not only a larger portion of the total product, but the price per bushel of the whole product will be augmented. Wages,

however, will be only *nominally* increased; the successive increments, w′, w″, w‴, cannot be more than enough to pay the enhanced price of food which caused them. In fact, they will not suffice to pay the new price, because the laborer will submit to live on a smaller quantity of food, or on food of a coarser quality; for while food is becoming dearer, the constant tendency of the population to increase is adding to the competition in the labor-market, so that Wages cannot rise in full proportion to the higher cost of food.

Thus far, it would seem that the new rates of Wages and Profits would be established only in agriculture, where alone a necessity for them appears to have been created. But a little reflection will show that they must extend equally to all employments of industry and capital. The enhanced price of food must raise Wages throughout the country; and competition must equalize Profits. If the returns for the employment of capital were smaller in farming than in commerce and manufactures, capital would be diverted from agriculture till the balance was restored. Furthermore, the increased cost of the raw material, which is always obtained more or less directly from agriculture, will directly lessen the Profits of the manufacturer; for instance, "even upon shoes there will be a small increase of labor, because the raw material will grow a little dearer as hides grow dearer; and hides will grow dearer as cattle grow dearer, by descending upon worse pasture-lands."

There is but one possible check upon this descent of agriculture to inferior soils, and the consequent declension of Profits, augmentation of the price of food, and increase of Rent. This is the progress of agricultural improvements, by means of which more food is obtained from the same quantity of land, or the same amount of food is procured by a smaller expenditure of labor and capital. In this way, the wants of an increasing population may be provided for without the necessity of bringing more land into tillage, or of applying capital with constantly diminishing returns. But this check cannot have any permanent influence; it may postpone, but cannot finally avert, the consequences of a steady growth of the population.

It only remains to notice a corollary from this theory, in respect to the different manner in which this declining rate

of Profits affects the comparative value of commodities produced in great part by Fixed Capital, and of those produced mostly by Circulating Capital. These two kinds of capital differ chiefly in point of durability; Circulating Capital is employed for the most part in the payment of Wages, and is very soon replaced by the fruits of the laborers' industry. Fixed Capital consists of tools and machines, varying in degree of durability, though all are consumed and replaced much more slowly than the elements of Circulating Capital. According as Fixed Capital has less and less of durability, so far it approximates the nature of Circulating Capital. Some commodities are almost exclusively produced by the expenditure of capital, chiefly of Fixed Capital. Gunpowder, for instance, to avoid the hazard of human life, is manufactured by machinery moved by water-power in some retired place, the works being so contrived that the process is continued with very little superintendence. Boots and shoes, on the other hand, till recently, were made almost entirely by the labor of man; machines were not used in their manufacture, and the workman needed but few and simple tools.

Now, a fall of Profits, as Mr. Mill remarks, "lowers in natural value the things into which Profits enter in a greater proportion than the average, and raises those into which they enter in a less proportion than the average. All commodities in the production of which machinery bears a large part, especially if the machinery is very durable, are lowered in their relative value when Profits fall; or, what is equivalent, other things are raised in value relatively to them." Recurring to the diagram, we see that Wages rise while Profits fall, though not in the same proportion; the fall of Profits, owing to the deduction of Rent, being more rapid than the rise of Wages. For a double reason, then, as population advances, and inferior soils are brought into cultivation, gunpowder, and other articles the value of which consists mostly of Profits, fall in price when compared with boots and shoes and other commodities, the value of which consists chiefly in Wages. The elements of the former are declining, at the same time that the elements of the latter are rising, in comparative value.

We need not pause here to show that this theory of Profits is unfounded, and that its results do not harmonize with observation and experience. The whole theory rests upon a few premises,

which have already been examined and shown to be mere assumptions, paradoxical in appearance, and having no foundation in fact. *It is not true*, that the increase of the population tends to outrun the supply of food, or that it compels us to have recourse to inferior soils, or that it necessarily increases the competition of laborers for employment. Food *does not* become dearer, but is cheapened, by the growth of the population; the districts which are most recently brought into cultivation *are not* the least fertile, but are often more productive than those which have been peopled and tilled for centuries; and the capital which is applied to them generally *yields a larger return* than that which is employed in the old settlements. It is not even necessary, as the people increase in numbers, to send to a greater distance for food; but emigration distributes the people, and commerce distributes the food, where both are most needed, the combined result being that each generation is more fully supplied with the means of subsistence than its predecessor. The only inequality to be feared is that which is sometimes caused by human institutions, in the distribution of property; and the only famine which is possible in modern times, and among civilized nations, is produced by poverty, and not by a deficient supply of food.

The premises of Ricardo's theory being thus proved to be baseless, the entire superstructure falls. The whole is a mere exercise of logical ingenuity, a long series of deductions being obtained from a few definitions and hypotheses, which have no foundation in experience, and no applicability to the circumstances of the present time. The original phenomenon to be explained — the declension of the rate of Profit as society advances in numbers and wealth — presents little difficulty, when we regard the limited extent of the field for the employment of capital.

Mr. Wakefield was the first among English Economists to notice the seemingly obvious fact, that, in every country, the field for the employment of capital is of limited extent. The first introduction of capital into such a field is attended with very large returns; but as the amount of it increases, the rate of Profit falls off; and when the limit is attained, or so nearly attained that Profits have fallen to a *minimum*, accumulation ceases, there being no longer any sufficient motive for the exercise of frugality. With an evident desire to reconcile this fact to the theories of Malthus and

Ricardo, with which it appears to conflict, Mr. Mill states the principle thus, — that "on a limited extent *of land*, only a limited quantity of capital can find employment at a Profit." Thus enunciated, it seems to be only a corollary from Ricardo's doctrine of Rent, which expressly affirms that successive applications of capital to the same quantity of land can be made only with successively diminishing returns. It will appear, however, that the extent of territory is not the only, or even the chief, limiting circumstance; but that the proper restriction is to be found in the magnitude of the wants of the people, as determined, 1. By their numbers; 2. By the degree of civilization under which they live; and, 3. By the greater or less inequality of the distribution of property among them.

But observe that we are here speaking of a limit to the profitable employment *of capital*. Some distinguished Economists, among whom are Sismondi and Malthus, have maintained that there may be a general over-production *of wealth*, — "a supply of commodities in the aggregate exceeding the demand, and a consequent depressed condition of *all* classes of production." We are all familiar with the fact, that there is often, in the market, a glut of a particular commodity, or of several commodities at once. Such a glut can be only temporary, for since its tendency is to depress the price below the cost of production, a smaller quantity of the article will be produced, and the market will thus be relieved of its burden. Prices are adjusted, and the current of productive means and productive energy is turned from one commodity to another, through the indications afforded by such instances of glut or over-supply on the one hand, and of dearth or scarcity on the other. But the doctrine of these Economists is, that there may be a *general* glut, or that the disposition and the ability to produce may outrun the *ability* of the nation to consume. The *disposition* to consume, of course, is coextensive with the disposition to produce. But the *ability* to purchase, or, in other words, the active and efficient demand, it is supposed, may so far fall below the supply, that there will be a general depression of prices and general distress.

On the other hand, it has been contended, with great force, that a general glut is impossible; for every article brought to market is a source both of supply and demand, — the owner of it always wishing to exchange it for something else of equal value, so that

his *desire to purchase* contributes to lighten the market to precisely the same extent to which he burdens it by his *desire to sell*. No man appears exclusively in the character of a seller; he is a buyer also, and he buys to the same extent to which he sells. If he brings a bale of cloth to market, for instance, it is because he wishes to exchange it, in the first place, for money. But this money he does not intend to keep in reserve, in order to increase indefinitely his store of it. He knows very well, that, if the money remains idle in his chest, it will yield neither interest nor profits. He will aim, therefore, to expend it as soon as possible, — either to buy articles of comfort or luxury for his own unproductive consumption; or to purchase raw material, tools, machinery, seed-corn, or the like, with a view to further production; or, lastly, he may lend it to another, who, by investing it productively, — that is, by making purchases with it, — will be enabled to pay him interest for its use. In either way, the money is expended; purchases are made to the full extent of the original sale. If the seller chooses to lend the money to a bank, instead of trusting it to an individual, the result is the same. The bank immediately lends it over again to some person who wishes to enlarge his stock in trade by buying more commodities.

This reasoning is quite conclusive against the possibility of a general glut; but it must be applied with two important limitations. First, it goes upon the supposition, that the laws and other institutions of the country admit the freest possible interchange of all articles of wealth. If there be a monopoly of any one article, if only a few persons are privileged or enabled to produce and sell it, and especially if this article be one of prime or universal necessity, — then there may be a glut, or over-production, of all other articles with reference to this one. To illustrate this point, I will take the most general case. All articles that are offered for sale or exchange may be roughly divided into two classes, according as they are articles of manufacture or products of agriculture. The latter are chiefly articles of food, and the demand and supply of food, as we have seen, are regulated by causes peculiar to itself, wholly irrespective of the presence or absence — the high or low prices — of other commodities. The *demand* for agricultural products depends on the number of appetites to be satisfied, and can only be enlarged by an increase of the population, or dimin-

ished by the population becoming smaller; the *supply* of these products is determined by the extent of territory capable of cultivation, and by improvements in the modes of husbandry. Neither of these sources of supply can be increased at will, or on demand; the land, in such a country as Great Britain, is all owned and occupied, and the number of acres is limited; improvements in agriculture are made by the progress of discovery and invention, and not merely because they are needed to feed the people.

Now, manufactures must be exchanged for food, and consequently *they* may be produced in too great abundance; there is no limit to their increase, but there is a limit to the supply of the only article for which they can be bartered. And we cannot here say, as in the case of a particular glut: "Transfer your capital and industry from the article of which there is a surplus to that of which there is a deficiency." In England, industry *cannot* be transferred from manufactures to agriculture; the land is all owned and held at a monopoly price, and the landlords refuse to employ more labor upon it, even if a greater amount of food should be produced by the introduction of more hands. They find, or think they find, that a greater *net* product remains to themselves when few hands are employed, than when there are many. Hence they endeavor to get rid of a portion of the agricultural laborers, instead of increasing their number. The policy of most English landlords is to depopulate their estates, to make the peasantry give place to flocks and herds, as in the North of Scotland, or to compel them, by unroofing and tearing down their dwellings, as in Ireland, to emigrate to foreign lands. Thus they imitate the system which has been practised for centuries in the Roman Campagna, which reduced the fields of Italy in the age of Pliny to a desert, and subsequently surrendered them to the Northern barbarians because there were not men enough left to defend them. The dispossessed tenantry are obliged to emigrate, or are driven into manufacturing industry; and thus the glut of manufactures is increased by the very causes which diminish the supply of food. True, food may be imported, as we have seen, even to an extent which is practically unlimited. But the very necessity for such importation, when it exists in a country whose agricultural resources are not yet developed to the utmost possible extent, proves that, in that country at least, there is already a

glut of manufactures, and one which, in its effect on the rate of Profits, would be very seriously felt, if there were not in other countries a glut of food. What actually exists in one nation, is possible in all nations; if there be an actual glut of manufactures in Great Britain, such a glut is possible for the whole civilized portion of mankind. And this glut of manufactured products in England is not a consequence of the stinted bounty of nature in reference to agricultural products. The amount of food produced there, from its own soil, is yet far from having attained its *maximum;* it might become as populous as Belgium, — that is, fifty per cent more populous than at present, — and yet not only feed all its inhabitants, but "produce commonly," as Belgium does, "more than double the quantity of corn required for the consumption of its inhabitants."

In most civilized countries, at least two thirds of the working population are engaged in agricultural pursuits, and but one third in manufactures and commerce; and this proportion existed in England itself down as late as the reign of the Stuarts. But in 1821, only one third of the English population were engaged in tilling the soil. Twenty years later, or in 1841, there were only about one fifth, and in 1861, but little over one sixth, thus employed, — a depopulation of the rural districts to the rapidity of which there is no parallel in history. There is no absolute deficiency either of land or food; for both can be had in abundance, as has been shown, in other countries. But as there are obstacles which impede the emigration of capital, so there are those which obstruct in a still greater degree the emigration of the indigent portion of the people. Poverty — the very cause which renders it desirable for them to emigrate — also renders emigration difficult, and often impossible.

The second limitation of the doctrine that a universal glut is impossible, is founded on the division already made of all articles of wealth into two classes. *First*, there are the articles which are designed for immediate consumption, and which *directly* satisfy the wants of man; such as food and clothing, houses, and the comforts and luxuries that gratify our tastes. And, *secondly*, there are the tools, implements, and raw materials, by means of which, or out of which, the former articles are made, but which, in their present shape, are not fitted for our immediate gratification and support.

These two classes may be designated respectively as, 1. *Finished products*, and 2. *Producing agents*. The division between them does not exactly correspond with that between capital and the other portion of wealth which is not capital. All *producing agents* are capital, it is true; but all *finished products* are not excluded from the definition of capital. A merchant's capital, for instance, often consists exclusively of commodities that are completely manufactured and ready for use; a retailer's stock is generally of this character.

It is evident that all wealth of the second class, all *producing agents*, possess only a kind of secondary and derivative value; they are prized, not for their own sake, but for what may be made out of them, or produced by their aid. And it is equally evident, that if the demand for commodities of the first class, *finished products*, is not coextensive with the demand for the second class of objects of wealth, or *producing agents*, then there must be an excess of supply, or a glut, of the former, and a consequent fall of prices and diminution of Profits. No one buys a plough or a loom for its own sake; for in itself it gratifies no feeling and satisfies no want. The one is valued only because it helps us to raise corn, and the other because it enables us to manufacture cloth. The only effect of the purchase of either, then, is, not to relieve the market already glutted with corn and cloth, but to furnish prospectively a greater supply of both, and thus to increase the glut.

We may admit, then, the force of the common argument, so far as it goes, against the possibility of a glut; and we may still deny that it covers the whole ground, or that it demonstrates the impossibility of any such excess of supply of one class of articles as cannot be remedied by diverting the sources of production to another class of commodities. We admit, that a capitalist who wishes to sell also wishes to buy; for to sell is to exchange, and the seller's disposition to part with one product is exactly measured by his disposition to obtain another of precisely equivalent value. But though he buys as much as he sells, it is not true that he always relieves the market by the former operation just as fast, and to the same extent, that he burdens it by the latter. We can easily see that he does not, in any one case of two articles corresponding to each

other as *finished product* and *producing agent.* Suppose the market, for instance, to be already amply furnished with grain. One who brings to it an additional thousand bushels of grain to sell, occasions a glut of this article, and certainly does nothing towards relieving this glut by expending all the money which he received for grain upon the purchase of ploughs and other implements for clearing and breaking up more land, and thus producing a larger harvest the next year. Or, if cloth enough is already offered for sale, the sellers of it will certainly occasion a glut of this article, if they exchange the whole stock of it for power-looms, and thus double or treble the quantity of cloth which will be offered for sale the next month. The same reasoning is applicable to any other two commodities that are related to each other as finished product and producing agent. It is equally evident that it is applicable to all such cases, taken together; or, in other words, a general glut *of finished products* is possible, and such a glut cannot be relieved by diverting capital to other employments. Then a superabundance of capital, in reference to the field for its employment, is possible; and the inevitable result of such a surplus is a diminution of the rate of Profit.

Thus far, I have only proved that a glut of finished products is *possible.* The probability of its *actual* occurrence, I have already said, will depend upon the magnitude of *the wants of the people,* as determined, 1. By their numbers; 2. By the degree of civilization which they have obtained; and, 3. By the greater or less inequality of the distribution of property among them.

First, it is obvious enough, that the consumption of finished products in any country, other things being equal, will depend upon the number of its inhabitants. The demand for food is necessarily in proportion to the number of appetites to be satisfied; and the other articles which are absolute necessaries of life must follow the same measure. Even the demand for luxuries will be determined in the same way, if the tastes and abilities of the people remain the same.

Secondly, it is equally plain that the extent of the demand for finished products will be affected by the degree of civilization which the people have attained, and that, other things being equal, it will advance with the progress of refinement among

them. The wants of the natives of the South Pacific Isles, when they were first visited by Europeans, were almost entirely supplied by the bread-fruit and cocoa-nut trees, and by yams and bananas. The bread-fruit tree alone supplied them with food, clothing, and the material for huts. When they learned from foreigners the existence of other comforts and luxuries, their wants rapidly multiplied; the knowledge of the uses of iron alone opened a wide field for the industry that it created. Intercourse with China has created a demand all over the world for tea; coffee first came into common use in Europe in the eighteenth century; the discovery of America added tobacco, and many other articles, to the list of our wants. It would be difficult to estimate the number of trades that have been created, and the number of persons who have found employment, through the diffusion of a taste for the fine arts.

Thirdly, as an effectual demand is created only by the coexistence of the disposition and the ability to purchase, its extent will depend upon the equality of the distribution of property. The two circumstances already mentioned affect only the magnitude and prevalence of human desires; and in the present state of civilization in Europe and America, it may be said that these desires are unbounded. But the ability to satisfy these desires exists in very different degrees. If this ability were equally diffused, no such thing as over-production would be possible; the consumption of an individual, or a family, possessing a very moderate amount of wealth, certainly exceeds the productive power of such a person or family. On the other hand, the consumption of the greater part of the population of Europe is limited to mere necessaries, or to what the custom of the country regards as necessaries. If the demands of all were thus restricted, there would be a great surplus of productive power; in the present state of invention, and with the present accumulation of capital, mankind might be idle probably more than half of the time. It is the luxury of the rich which offers the only vent for all finished products that exceed the definition of necessaries. This fact does not furnish any apology for such luxury; for a more equitable division of the goods of this world would cause the surplus of productive power — all that is not needed for the creation of necessaries — to be expended in providing comforts and decen-

cies for the bulk of the nation. But when property is very unequally distributed, the luxury of a few must make up for the forced abstinence of many, or there will be a constantly increasing surplus of capital, which will manifest itself either by the forced emigration of such capital, or by such a diminution of the rate of Profit as will take away all temptation to make additional savings.

All will allow, that the productive power of every civilized nation already exceeds what is requisite for providing all the people with a stock of mere *necessaries*. Any excess beyond this point — whether such excess be created by the invention of new machinery, or by the accumulation of fresh capital — must be directed towards the production of *comforts* and *luxuries*. It is a mere evasion, as we have seen, to say that it may be directed to creating more productive agents. Such additional agents will only increase the amount, perhaps already too great, of comforts and luxuries in the form of finished products. But when they have reached this form of finished products, they must either be consumed, or they will lie idle and rot; no other use can be made of them. Now, I have admitted, that, if property — or *purchasing power*, which is the same thing — is pretty equally distributed among the people, the aggregate desire will take off and consume the aggregate product of comforts and luxuries, without causing any declension of Profits. On an average, each family would be inclined to consume all the products which, under a perfectly equal distribution of property, it would be able to produce; and this would be enough to prevent Profits from falling at all. The only effect of the invention of new machinery and improved processes of manufacture would be to increase the stock of luxuries which each family might thus consume, or to give them more leisure time, which is in itself an additional luxury. Some would consume more, and some less, than this; but the prodigality of the former would be balanced by the frugality of the latter, and the only effect would be the inequality of property that would thus be gradually induced.

But suppose property to be very unequally distributed, only one hundred families now having all the wealth, and the whole remaining population being limited to the bare necessaries of life. As the productive power of the community will not be altered by

this change in the distribution of property, there will be as many comforts and luxuries to be consumed as before, and it is evident that they must be consumed solely by the one hundred wealthy families. Now, suppose one of these families to be disposed to make savings, and thus to increase its productive power; it is certain that both the act of saving and the employment of the savings will tend to create a glut and to lower Profits. The act of saving will leave the luxuries formerly distributed among one hundred to be consumed by only ninety-nine families; and this diminution of the demand will depress prices and Profits. Then the employment of the savings as capital, though it will give Wages to more poor families, and will furnish them necessaries through their labor, will leave also another margin of Profit, which must be devoted, as before, to producing luxuries; and thus a larger supply of luxuries will be forced upon the market in which but ninety-nine wealthy families are now the only purchasers. A second depreciation of prices must be the consequence.

The intention of Providence seems to be, that the time and labor economized, through the use of machinery and improved modes of production, in the production of necessaries, should be devoted to the creation of luxuries for very general use, — for most of the working families, as well as for a few persons of wealth; or, supposing that there are already luxuries enough for all, that the time, the immunity from the necessity of labor, so obtained, should be distributed among the people with some approach to equality, nearly all having a portion of leisure to devote either to recreation or mental improvement. When the distribution, not of wealth indeed, but of the opportunities for obtaining wealth, is equalized, or made to approach equality, there will be no possibility of creating too many labor-saving machines, producing too much, reducing the rate of Profit too low, or glutting the market of the world. Those whose ambition is limited and whose wants are few will not enter into the strife as rival producers, but will devote the surplus of time and wealth which they have earned to the gratification of their tastes and to a quiet enjoyment of life. I have already noticed the fact, that Ireland, where the inequality in the distribution of property is extreme, is, in proportion to her population and wealth, one of the poorest

markets for manufactured produce in the world; while in the United States, as there is a near approach to equality in everything, there is the largest demand for such produce.

In the business of production, capital — which may be called *embodied labor*, because it consists of the reserved fruits of previous industry — must bear a certain proportion to *free* or *immediate labor*, which is the direct application of human strength and skill. Embodied and free labor have each a task to perform; neither can act to advantage unless aided by a due portion of the other. The industry of man is of little avail, if it be not assisted by tools, implements, and machines. Even the savage cannot hunt without his weapons, nor fish without appropriate implements. On the other hand, at the opposite extreme of the social scale, when machinery exists in its most costly and complicated forms, some free labor is still needed to superintend and aid its operation. There may be an excess, as well as a deficiency, of either of the two agencies with which any community performs its work. Between such deficiency and excess, the field for the use of capital varies to every conceivable degree; and according as there is too little or too much capital for the extent of the field, the Profits will be large or small. "As surely as there might be too many ploughmen," argues Dr. Chalmers, "so there might be too many ploughs. What is true of the living is true of the inanimate instrument; both might be unduly multiplied." This can be best illustrated by a glance at the successive stages of progress of an infant settlement formed by civilized men in a country hitherto unoccupied.

In the infancy of such a colony, the demand for capital is urgent; the capacities and wants of the settlers far exceed their means. The sources of its prosperity as yet are latent, and need to be developed. Clearings are to be made in the forests, buildings are to be erected, roads are to be opened, tools to be provided. Nearly the whole of the machinery through which an organized society does its work is to be created out of the raw materials afforded by the land, the sea, and the forest. Luxuries as yet do not exist. The people are frugal by compulsion; the fruits of nearly all their toil, then, become capital, or are converted into means for the future more advantageous application of industry. The Profits of what little capital they have are also, of

necessity, very great. One tool must be applied to many purposes, and is therefore constantly in use. The axe for a time must do its own work, and that of the hammer, the saw, and the plane. The possession of this one instrument must, then, be a source of great gain to its owner; he can buy the unaided services of his fellows — the only payment they have to offer — for a long time, by the loan of it. In a similar way, every other item which constitutes capital in such a community will yield large gains.

After the privations of the first season are surmounted, each laborer probably finds himself provided with tools, so that the Profits on this branch of capital are lessened; and, as an opening has been made in the forest, the operations of agriculture can begin. There is now a great demand for seed-corn, since the natural fertility of the land will return a hundred fold, if the settler only has what is requisite for planting. He can safely promise to return three bushels of grain in the autumn, for one bushel lent to him in the spring; in other words, he can offer the capitalist a profit of two hundred per cent for seed. But after the first harvest is gathered in, so bountiful is the product of the virgin soil, that very probably grain cannot be sold at all in the infant settlement, the supply altogether exceeding the colonists' own wants, and the means of transportation and export not being yet provided; that is, no Profit can now be made on food till the means are obtained for sending it to market. Capital is now required to construct roads and furnish shipping; and as the commodity is to be carried from a place where it has little or no value to one where it will command a ready sale and a high price, the gains of the merchant engaged in this transportation will necessarily be immense. For the first few seasons after American farmers had established themselves in the Oregon Territory, it is an historical fact that they fed their horses with the finest wheat, no market being within their reach.

Further illustrations are unnecessary. In respect to many other articles, as well as to tools, seed-corn, and means of transportation, it is easy to see that the wants of an infant settlement are great, the Profits of capital are correspondingly large, and that, as fast as these wants are supplied, the rate of Profit necessarily declines.

After a country is once sufficiently stocked, as it would seem,

with Fixed Capital, the progress of invention may suddenly create a new demand for it by calling for the construction of improved machines, and implements. Thus the invention of railways, and the application of steam to the purposes of land conveyance, have occasioned, both in England and America, during the last forty years, an immense demand for the investment of capital, some of the old forms in which it was embodied being rendered useless or unproductive. Turnpikes cease to be productive property, and canals are less profitable than before. For a time, Floating or Circulating Capital is in great request, as it is needed for conversion into this form of Fixed Capital; and accordingly the rate of interest rises. But when the improvement is completed, this demand ceases, the returns from the new processes are very great, Floating Capital accumulates more rapidly than ever, and the rate of interest falls again. The railway improvement in England and in the eastern portion of the United States may now be said to be nearly completed; only the lines of communication with the Pacific coast still call for additional investment on roads to be traversed by the agency of steam.

But I need not trace further these successive steps in the progress of opulence and the accumulation of capital. It is evident that the rapidity of its increase depends on the rate of Profit, which is necessarily high in a new country, where the people are frugal and industrious. The rate gradually diminishes as the primary and most imperative wants of the community are satisfied, and when artificial tastes and an appetite for luxury begin to appear. Floating Capital is soon acquired in sufficient quantity for the ordinary purposes of industry and traffic. In such countries as England and Holland, however, immense sums gradually take the form of Fixed Capital, being vested in making land improvements of the largest and most expensive character; in constructing docks, harbors, and canals, erecting dikes, and furnishing manufactories with costly machinery. Vast as the field is which such works open for the investment of capital, it needs but a glance at the present condition of England and Holland to satisfy us that this field is all occupied, and the work of Fixed Capital is done. What farther savings from income are made, must go into the market as Floating Capital, seeking investment, — seeking borrowers who will take it at a very moderate rate of interest. There is great competition

of the lenders with each other in the English and Dutch markets, — a competition which is strikingly shown when the government appears as a borrower, and puts up a large loan at what is virtually an auction, to be sold in shares to the highest bidder.

A diminished rate of Profit tends to throw the great branches of manufacture and commerce exclusively into the hands of large capitalists, and thus to increase that inequality in the distribution of wealth which was one of the original causes of a fall of Profits. Hence it is, that, in such countries as Holland and England, where a low rate of interest has prevailed for a long period, there is as great an inequality of fortune among manufacturers and merchants as among landowners. "It is in the nature of trade and manufacture," says Mr. Laing, "that great capital drives small capital out of the field; *it can afford to work for smaller returns.* There is a natural tendency in trade to monopoly, by the accumulation of great wealth in a few hands. It is not impossible, that, in every branch of trade and manufacture in Great Britain, the great capitalist will, in time, entirely occupy the field, and put down small capitalists in the same line of business; that a moneyed aristocracy, similar to that in Genoa, will gradually be formed, the middle class of small capitalists in trade and manufacture become gradually extinguished, and a structure of society gradually arise in which lords and laborers will be the only classes or gradations in the commercial and manufacturing, as in the landed, system. An approximation, a tendency, towards this state is going on in England. In many branches of industry — for instance, in glass-making, iron-founding, soap-making, cotton-spinning — the great capitalists engaged in them have, by the natural effect of working with great capital, driven small capitals out of the field, and formed a kind of exclusive family property of some of these branches of manufacture. Government, by excessive taxation and excise regulation, — both of which have ultimately the effect of giving a monopoly to the great capitalist, *who can afford the delay and advance of money these impediments require,* — has been hitherto aiding, rather than counteracting, this tendency of great capital to swallow all the employments in which small capital can act."

I shall soon have occasion to show, that it is the abundance of Floating Capital seeking investment, the competition of

lenders with each other, and the consequent depression of the rate of interest, that is the great incentive to those wild and ruinous speculations which usually precede a commercial crisis, and are commonly, though improperly, attributed to some defective regulation of the currency. But my present point is sufficiently illustrated, which is, that when a sufficient amount of wealth has taken the form of Fixed Capital to satisfy all the real wants of the country, — that is, when the whole organism of agricultural, manufacturing, and commercial industry is completed, — then, if savings from income continue to be made, they must be pushed into market as Circulating Capital seeking investment; and the rate of Profits and interest must sink to a minimum from the competition which then ensues. This is already the state of affairs in England; and if we are still distant from it in the Atlantic States, it is because the new settlements which are constantly forming in the West operate as a drain upon our capital as well as our population; and also because the field open for the investment of Fixed Capital in the gigantic improvements required in our immense territory is so vast that centuries must elapse before it is fully occupied.

CHAPTER XII.

THE THEORY AND USES OF MONEY, AS ILLUSTRATED BY INCIDENTS IN THE WAR OF THE GREAT REBELLION.

THERE are three things which are so frequently confounded with each other, that I begin with an attempt to define them and ascertain their precise meaning. These are Money, Currency, and Floating Capital.

1. Money, in the strictest sense of the term, consists of stamped pieces of the precious metals, of a known weight and fineness, issued by government authority, adopted both by that authority and by common consent as the common medium of payment and exchange, and having a natural or intrinsic value equal, or nearly equal, to the value thus attributed to them by authority and use. In other words, Money is what we usually call Specie.

As Money, it is not a commodity, or an article of common purchase and sale; but it may readily be converted into a commodity at the wish of its holders, either through melting it up, or through selling it, in proportion to its weight and fineness, as so much bullion. On account of its intrinsic value and consequent *universal acceptableness*, it is not merely a legal, but a natural tender for the payment of debts.

As Money, moreover, it has two perfectly distinct functions: — 1. As a standard or measure of value; and, 2. As a universal medium of exchange.

It is not a perfect standard, but it is the nearest approach to one, and the most convenient or available for use, that can be had. By common consent of all nations, the two precious metals, as they are called, have been selected, one or both, as the unit of measurement, or nearest practicable approach to a standard of value, because their Cost of Production has been more stable and uniform than that of any other commodity. They are obtained in small quantities, by nearly the same amount of labor in different years, in various parts of the world; and as the stock of them already on hand, accumulated by the labor of many previous years, is large, while the addition to this stock obtained in any one year is relatively very small, their value necessarily changes slowly, if at all. By law, the dollar contains 23.2 grains of pure gold, or 345.6 grains of pure silver; the values of the two metals, of course, are in the inverse ratio of these quantities, or as about 14.9 to 1. The English pound sterling, or sovereign, contains a small fraction over 113 grains of pure gold; the French franc contains 4.484 grains. As the real unit of value is one grain of pure gold, it is evident that the pound sterling is worth 4.87 dollars, or 25.2 francs. In other words, 113 grains of pure gold are coined in England into one pound sterling; in France, into 25.2 francs; in this country, into 4.87 dollars.

As a means of ascertaining the relative value of different commodities, money is akin to the yardstick or the peck basket. As the former is a measure of length, and the latter of capacity, so the dollar or the pound sterling is a measure of value. Great pains have been taken to determine with the utmost exactness the dimensions of the two former measures; otherwise, all contracts for the delivery of a quantity of cloth, grain, or any other com-

modity would be so indeterminate as to give rise to endless disputes; in fact, their precise execution would be impossible. Far more important is it that the dollar, or the franc, which is the unit for measuring values, should itself be determinate and unalterable in its value. All bargains in trade, all mercantile or financial contracts to be executed at a future day, depend upon precise determinations of the values involved. As there could be no interchange of thought between man and man, if the words in the language used did not have their fixed meanings, known to all; so there could be no proper traffic, no satisfactory fulfilment of contracts, no precise determination of profit or loss, except the values in question could be easily ascertained by precise measurement. As a measure of value, then, money is an indispensable agent of commerce, and without it civilization itself would be impossible. All substitutes for it, all modes of economizing or facilitating its use, are legitimate and equitable only so far as they preserve its essential attributes of precision and unchangeableness. The Price of any commodity is its value reckoned in Money; and hence, as the unit of measurement, Money may be called the universal regulator of Prices. Thus, as the value of Money (i. e. of one grain of pure gold) rises, the Prices of all commodities fall in the same ratio; and *vice versa*, as the Money falls, the Prices rise. In fact, the word *Price* means *value measured by Money*.

In its second function, Money is a convenient, though not an indispensable, medium of exchange. Trade is really an interchange of commodities; we part with one commodity, or one parcel of commodities, only in order to obtain other commodities in exchange. But as it is often inconvenient to effect the desired exchange directly, we perform it indirectly, first selling for Money the articles that we wish to get rid of, and then purchasing with this Money the articles that we desire. This appears to be a needless complication of the process, as it is really making two exchanges, when but one would seem to be necessary. But we are compelled thus to act, because we can seldom find a person who not only wishes to buy the very commodity, and the exact quantity of it, which we wish to dispose of, but who also desires to sell the very articles, and the same quantity of them, which we need to obtain. Most frequently, therefore, we are obliged to sell to one

person, and to buy from another. Hence there needs to be some common medium of payment and exchange, — some embodiment of value, which we can safely receive in exchange for the commodity that we part with, because we know it will be received from us, and *at the same valuation at which we obtained it*, in payment for whatever we wish to purchase. Money is such a common medium, and a very convenient one, because it is so divided into coins of different weight and value that we can easily make up from it the precise sum needed to adjust the payment or sale.

The essential qualities of a common medium of exchange are, — 1. Fixity of value; 2. Universal acceptableness; and, 3. Divisibility into parts of such size as to furnish an exact equivalent of any required amount. No one desires Money for its own sake, but only for the sake of what it will purchase. No one will consent to receive it, then, if he is not sure that it will not lose value while in his hands, and that anybody else will gladly receive it from him in exchange for any commodity that he desires.

I have said that Money, though convenient, is not indispensable as a medium of exchange. Practically, as we shall see hereafter, in the complex operations of trade, purchases are frequently offset against sales, so that the transactions are completed without any actual use of Money. This is the case generally in wholesale trade, and especially in the large transactions of international commerce, since it would be inconvenient and hazardous to transport large sums of Money over a great distance, and across sea.

But though such offsets actually reduce trade to direct barter of one set of commodities for another, they cannot be effected without a precise determination of the values which are thus interchanged; and such determination is possible only through reference to Money in the exercise of its first function, as an accurate measure of value. A tradesman may be willing to barter tea, sugar, and other groceries for grain and meat; but the two parties to such a trade can agree upon its terms only through a precise measurement, in dollars and cents, of the relative values of the articles which are exchanged for each other. A tradesman cannot safely conduct his business except by keeping accounts; and book-keeping is practicable only through computation and measurement of the values bought and sold. Hence, by the common metonymy of substituting the measure for the thing measured, we generally speak of

capital, property, merchandise owned, loans, payments, etc. as *so much Money*, — as so many dollars or pounds sterling; though, in fact, gold or silver coins form little or no portion of them, but they are only *so many dollars' worth*.

Moreover, since Money is the common medium of exchange, and since wealth itself subsists, or is continued in existence, only through an interminable series of exchanges, all wealth must more or less frequently, though only for a short time, appear as Money, and be reckoned or estimated as such. Money is thus the universal form or garb which all the items or commodities that constitute wealth occasionally assume. If a man is compelled to borrow, he borrows, not the particular articles that he actually needs, but as much Money as will enable him to purchase them. And when he pays the debt, he does not return the very articles that he borrowed, or an equivalent amount of a similar kind, but he pays a proportionate sum of Money. As we are thus obliged constantly to substitute one name for the other, it is not strange that people should almost universally believe that Money alone is wealth, and that the ease or difficulty of effecting loans and payments should be called "the abundance or scarcity of Money." This error can be avoided only by keeping constantly in view the fact that Money has two distinct functions, and only two: First, as a *measure* of value, — that is, of wealth, capital, debt, or payment, — it is akin to the yardstick or peck basket; secondly, as a *medium of exchange*, it is a mere "ticket of transfer," or means of effecting a change of ownership, — that is, of bartering one kind of merchandise for another.

2. Currency, as its name imports, is the *current* substitute for money, and has no intrinsic value. It consists of engraved pieces of paper, issued either by the government or by a bank, each bearing on its face a promise to pay the bearer, either on demand or at some future day, a certain sum of Money. Strictly speaking, then, it is the acknowledgment of a debt, and it differs from other acknowledgments of indebtedness, such as promissory notes, bills of exchange, and the like, only because it is payable "to bearer," whoever this may be, and not, like the promissory note, or bill, "to order" of some one person. Because it is thus left indeterminate, so that any holder of it may demand its payment, it is fitted for general circulation as a substitute for Money. A note

of hand is not fitted for such use, because payment of it can be enforced only by the particular person designated on its face, or by his legally accredited representative.

Currency is of two sorts, — 1. That which is immediately convertible, or payable *on demand;* 2. That of which the payment is postponed, either indefinitely, or to some fixed future day. The former usually appears as convertible bank-currency, or bank-bills; the latter is properly called Paper Money.

If the arrangements made by the issuing banks are such that every holder of their bills is sure that he can have them cashed with ease and quickness whenever he desires, then the bank-bills are an admirable substitute for Money. That which is immediately convertible into a dollar or a pound sterling will evidently *measure value* just as well as that dollar or pound; a piece of tape or paper, if it is just a yard long, is as good a measure as the yardstick. As a *medium of exchange,* such bank-bills are not merely as good as Money; they are better, for they are more convenient. They are less expensive, more portable, more easily counted, and, if lost by accident, wreck, or fire, there is no absolute destruction of value, — no real loss to the community. Only make sure of their immediate convertibility, and there is a great gain in substituting, as far as possible, bank-bills for actual Money.

But Paper Money, because it is not immediately convertible, has no fixity of value, and is therefore adopted only on compulsion, through the act of the government or the necessity of the case, which, by making it *legal tender,* compels creditors to receive it as a satisfaction of their dues. Foreigners are under no obligation to receive it, and therefore invariably refuse it, so that its circulation is confined to the country in which it originates. Its value there, at any one time, depends not merely upon the actual quantity of it in circulation, but on the apprehended speedy increase or diminution of that quantity, according as the necessities or the caprice of the government, or other authority by which it is issued, may dictate. Hence its value *cannot* be rendered stable or uniform; it is always liable to sudden, and even great, fluctuations in value, according as the apprehensions of the people are more or less excited. The *value of the Money* in use is, as we have seen, only another name for the *prices of commodi-*

ties. Accordingly, when Paper Money is in use, there is no standard — no uniformity — of prices, and therefore no possibility of foreseeing how much value must be given and received in payment of a debt or in the execution of a contract. The very life of trade consists in anticipating what will be the prices of merchandise at some future day; if this cannot be done, legitimate trade cannot go on; it is reduced to mere gambling. Any one who buys or sells for any other purpose than that of immediate consumption must, in popular phrase, "run for luck"; he cannot tell whether he will gain or lose by the transaction. Commerce is thus incapacitated for performing its proper functions of equalizing the supplies and the prices of commodities at different times and at different places.

What is worse, the use of Paper Money destroys confidence between man and man; it sanctions injustice, and compels the injustice to be constantly repeated. Any one who trusts another, either by selling him goods on credit or by making him a loan, does so at his peril. He must "run for luck"; for he cannot tell how much less or more value there may be in the *nominal* payment than there was originally trusted out. If, in the interval between contracting and paying a debt, the value of the Paper dollar is depreciated 20 per cent, the creditor is defrauded of one fifth of his just due; if that value rises 20 per cent, the debtor is compelled to pay one fifth more than he ought. On account of the uncertainty and injustice thus created, legitimate trade in this country, during the last eight years, has been several times reduced almost entirely to what is called "a cash basis"; that is, credit has been generally refused, and the only proper traffic has been the direct interchange of values vested in commodities.

The value of Paper Money does not at all depend upon the probability that the "promise to pay," which is engraved upon its face, will be kept. Its issue is an act of enforced bankruptcy; it acquires a conventional but fluctuating value from the legal necessity imposed upon all creditors to accept it as a full discharge of any pecuniary obligation. The act of government has made the notes *legal tender;* and the power which they thus possess to wipe off debts gives them a fictitious value, or makes them capable of effecting purchases. Everybody is willing to take these poor substitutes for money, because everybody else is willing, or is

compelled, to take them. If any one has a barrel of flour to sell, it may seem that he makes a foolish bargain by consenting to exchange it for half a dozen ragged bits of paper, each bearing a promise which, as he well knows, will never be redeemed. But observe that the real equivalent for the flour is not these worthless notes themselves, but the commodity which they will purchase, or the act which they will enable him to perform. He sells the flour because he wishes to buy a piece of cloth, or some groceries, or to pay off a debt; and if these bits of paper will enable him to accomplish these ends, — to buy the desired commodities or a receipt in full, — they are just as valuable as if they were Money strictly so called, as if they had intrinsic value.

Recent facts confirm this theory. During the last year of the Great Rebellion, probably not the most sanguine Confederates had any expectation that the Paper Money with which their government had deluged the Southern States would ever be redeemed or paid off, either in full or in part. It was already so depreciated that forty or fifty dollars of it were needed to buy one dollar in gold. But at this depreciated rate it circulated just as freely as ever, — probably more freely, as the depreciation went on; since every one who had received it was eager to get rid of it, or to pay it away as fast as possible. It was quite as easy in Richmond, up to the date of its evacuation, to buy a barrel of flour with three hundred dollars in Confederate Currency, as with six dollars in gold; — not that any sane person regarded these two sums as equivalent in intrinsic value, but because the state of the market, and the necessity of having some common medium of exchange, some Currency or other, had established this relation between them.

The paradox seems still more extravagant when we state, that the want of faith in the "promise to pay," or the opinion which may be entertained respecting the probability of the notes being redeemed at some future day more or less remote, is not the cause even of the depreciation in the value of the Paper Money. The extent of the depreciation depends not at all on the presence or the want of faith in the ability and disposition of the government to pay off the notes in full with specie, or on the nearness or remoteness of the time when it is likely to do so; but solely on the

relative amount of the Currency as compared with the needs of business.

How great are these needs? Commerce needs Money or Currency enough to enable it to perform its peculiar function; that is, to make the prices of commodities in the home market equal, or as nearly equal as possible, to the prices of the same commodities in foreign markets. If the amount of Paper Money is just sufficient for this purpose, there is no need of its being redeemed at all, but it may continue in use for an indefinite period. A paper dollar is just as good as a gold dollar, so long as it will buy as much; that is, so long as prices are maintained at the point of equilibrium. If there is more than enough Paper Money for this end, it will inevitably be depreciated; that is, prices will be unduly enhanced. And the depreciation, or the undue enhancement of prices, — these two phrases meaning precisely the same thing, — will be strictly proportioned to the excess of the Currency, or to what men think will very soon be the measure of that excess.

For instance: if there are only one hundred dollars to buy flour with, and only ten barrels of flour are offered for sale, the competition of buyers and sellers must fix the price at ten dollars a barrel. If there were twice as much flour, the number of dollars being the same, the price must be reduced to five dollars. On the other hand, double the quantity of money, — let there be two hundred dollars available for this purpose, — and, as at first, only ten barrels to be sold, and the price would rise to twenty dollars a barrel; that is, each dollar would be worth only half as much, — would be depreciated fifty per cent. Such an adjustment of prices is evidently independent of any opinion that may be entertained respecting the intrinsic value of the dollar, or the probability of its speedy redemption in coin. Money as such is valuable for no other purpose than buying commodities or paying debts; and therefore its value must be measured by what it will accomplish in these two respects.

3. Floating Capital is the only stock of values which are really available for actual loans or actual payments. Its amount, at any one time, is the aggregate of merchandise of all sorts which is directly offered for sale in open market and at current prices. It includes even lands, buildings, machinery, railroads, and all other

income-yielding works and improvements; but includes these or any other goods *so far only as they are actually put into the market at ordinary rates*, and not reserved for the owner's private use, occupation, or enjoyment, or for sale at some future day. It is the accumulated surplus product of the national industry which remains after each producer or owner has taken out of his share of it what he needs for his own maintenance and consumption, and what he holds over for future use or sale. It exists in myriad forms, so as to satisfy all tastes and provide for all wants and emergencies; and the greater part of it is in constant use as a means of helping industry and thereby increasing the annual product. It is the great national "stock in trade," perpetually changing ownership as well as form, and perpetually offered for sale, loan, and payment. The incessant transfer of portions of it from one person to another, — portions always definite in respect to the amount of value transferred, but usually left wholly indeterminate in respect to the particular articles in which that value is embodied, — is the operation in which all debt originates, and through which that debt is finally paid. Indeed, most of the Floating Capital of every country is constantly subject to indebtedness, because the nominal owners of the larger portion of it are not its real owners, but have borrowed from others the whole or a part of its value.

Moreover, since the merchandise often changes hands more frequently than the debts mature which are created at each transfer, the aggregate of debt often largely exceeds the amount of property which is its source and representative. Thus, a merchant, A, may sell 100 bales of cotton to B on six months' credit; long before this debt becomes payable, B may sell the cotton on equal length of credit to C, C to D, and so on indefinitely. Thus, though the value at each sale be only $50,000, before the first six months have elapsed, debts may have been incurred and promissory notes passed, based on this cotton, amounting to half a million of dollars. These debts, moreover, being transferable, are sold hardly less frequently than the merchandise in which they originate. In order to pay his debt to A, B relies on payment from C; but as C's note, given at a later day, does not mature soon enough for this purpose, B sells it, perhaps, to a broker, who again sells it to a bank, and B is thereby enabled

to anticipate its payment. Trace this line of sale and transfer as far as we may, it all forms one chain; and the hook to which the first link of the chain is attached is the 100 bales of cotton, which form one item in the vast aggregate of our national Floating Capital. All debt comes originally, then, from a change of ownership, or rather from a change of *possession*, of some portion of this Capital; since not the actual holder of the cotton, but he who last bought up the debt created by its sale, is its real owner. All the intermediate parties to the transaction, through soon reselling the cotton or the debt, have been already repaid all that they advanced.

As all debt originates in this fund, so all payment which is real payment, and not a mere transfer of one debt for another, must come out of the same fund; in other words, the payment, as well as the original loan, is in merchandise. Thus, a miller who receives $ 10,000 for a lot of flour is really paid in the wheat which he immediately purchases with those dollars. A manufacturer of boots and shoes is paid in leather; a paper-maker, in rags. The only advantage of using Currency or Money in payment of a debt is, that it enables the creditor to select for himself the articles in which he prefers to be reimbursed. Perhaps he will take some of one and some of another kind of Floating Capital; or he may wish to be paid by a little invoice or assortment of commodities. A workman's wages are really paid, every Saturday night, in a little stock of necessaries. The great fund of Floating Capital in the country furnishes the values which were originally lent, and those which are finally paid.

I have thus, at length and with some minuteness, endeavored to define and analyze the distinctive nature and functions of Money, Currency, and Floating Capital, because, in the common use of language, and in all the ordinary transactions of trade and finance, these three very different things are usually confounded and loosely lumped together under the one name of *Money*. This misuse of language, and the confusion of ideas which lies at the bottom of it, is the source of all the popular errors on the subject, the cause of the paradoxical appearance of most of the statements in which the true theory of finance is summed up, and the origin of the numerous and serious mistakes committed in legislation about banks and the Currency, and in the financial operations of

governments. Some of these paradoxes may be here briefly stated.

1. Money is a mere convenience, and, *in performing its function as a medium of exchange*, need not, and generally does not, possess any intrinsic value whatever, — any more than the bit of pasteboard, called a railroad ticket, which entitles one to a seat in the cars.

2. Money yields no profit and bears no interest; profit can accrue only from the use, interest only from the loan, of Capital. To retain in one's possession a large sum of Money is not, either for an individual or a community, a means of becoming rich, or even a means of direct enjoyment; but it is an expense and a loss, corresponding to the unproductive accumulation of fine clothes and costly furniture for the mere purpose of ostentation.

3. No sensible person wishes to obtain Money in order to keep it, but only to pay it away to others; and the sole reason why he will receive it at all is, that everybody else is willing to take it, and is also in just as great a hurry as he is to get rid of it as soon as possible.

4. In any country, the population and the commercial and manufacturing industry remaining the same, the stock of Money, measured by its value relative to that of other commodities, cannot be increased. Pour in more, — double or triple the quantity, — and either the additional quantity will not stay in the country, but will escape from it as readily as water does from a sieve, or the power of each individual piece of Money will be thereby so much diminished, that the aggregate value will be no greater than it was before such increase.

5. Even in performing its function as *a measure of value*, the greater or less *quantity* of Money is a point of no importance. If gold were but one fourth as plentiful as it is now, one grain of it would be quadrupled in value, but would still measure other values as accurately as ever. The unit of measurement would then represent a value four times as large as before; our measure would be the bushel, instead of the peck. Just the opposite effect would be produced, if the quantity of gold should be increased fourfold; we should then be using a two-quart measure, gold having but a fourth part of its former value.

6. To increase the stock of Money in the country is not thereby

to augment the fund available for loans, or to diminish the difficulty of borrowing, or to lower the rate of interest. On the contrary, the difficulty of borrowing is enhanced by any considerable enlargement of the stock of Money. Hence, the phenomena of what is usually called "a tight money-market" are not in any way attributable to a scarcity of Money, nor is "an easy money-market" caused by an abundance of the circulating medium. And the rate of interest is so far from being lowered by the abundance of Money, that it is usually highest when Money is most plentiful, and declines as the latter becomes scarce. In California, for instance, at the time when they were digging Money out of the ground at the rate of three millions of dollars a week, and were exporting it at the rate of one hundred and fifty millions a year, because they had more than they knew what to do with, the ordinary rate of interest was from 24 to 36 per cent. And even now, California still continuing to export Money, though at a diminished rate, the normal rate of interest there is about double what it is in the Atlantic States.

7. We do not really borrow Money, nor do we pay Money, either in cancelling debts or in purchasing commodities. What we borrow has actual value, and we need to keep it for six months, or a year, or whatever the period of the loan may be. But Currency, which answers all the purposes of Money, has no intrinsic value, and the borrower certainly does not keep it on hand, but pays it away forthwith, — usually on the day on which he obtains it. He would not borrow at all, if he had not occasion for such immediate payment. Of course, the interest, which is the compensation paid for the loan, is not paid for the use of the Money, but for the use of the actual values — that is, the commodities — which are transferred to the borrower on presentation of the Money or Currency as a certificate to prove that these commodities have been really loaned to him for a season. Just so is it in the case of purchases and payments. The receiver would not consent to take that which has no value, either in satisfaction of a real debt or in return for the delivery of valuable goods. He takes the Money for the hour only, as a certificate entitling him to receive immediately a corresponding portion of the Floating Capital in the country, which is the value that is actually paid to him.

These paradoxes might be multiplied indefinitely; but the

specimens now given will suffice. They are all resolved, and their paradoxical character disappears as soon as we perceive that Currency, or Floating Capital, is really meant in most cases when we are loosely talking of Money. Since Currency has no intrinsic value, and even Money does not need to have any, in order to be generally acceptable, it is not strange that Money bears no interest, or, in other words, that people should not be willing to pay anything for the use of it; that no sensible person wishes to keep it, even for a single day; that the quantity of it in a country cannot be increased, for there is a limit within which only is it generally acceptable, — just as no more railroad tickets can be sold than there are seats or places in the cars to be obtained by them. Again, since Floating Capital, in some of its myriad forms, is really the commodity which is wanted, which is borrowed and paid, interest being the compensation for its use, it is not strange that to bring more Money into the country does not at all enlarge the fund available for loans, or diminish the difficulty of borrowing, or lower the rate of interest.

This truth cannot be better illustrated than by the experience of this country during the recent war; and it was ignorance of this truth, or losing sight of it, which led to nearly all the financial mistakes of the war. Most persons thought, at the outbreak of the Rebellion, or at least as soon as its magnitude and the difficulty of overcoming it were fully recognized, that the great want of our government would be the lack, not of men, but of Money. This must have been the opinion of the Secretary of the Treasury and of Congress, since their chief financial measures looked to this end alone. How were we to obtain the Money, — how effect the enormous loans that were necessary to place and sustain immense armies in the field, and to bring out all the machinery of war on a larger scale than the world had ever witnessed? The patriotic enthusiasm of the people supplied soldiers and sailors enough; there was never any real doubt that we could fill our army, and man our navy, to any extent that might be requisite. Just as little did any one doubt that the industrial and commercial ability and energy of the country could furnish all the arms and munitions, all the ships and provisions, all the transportation and supplies, which a million of men in arms would need, provided only that these articles could be paid for, or that Money could be obtained wherewith

to purchase them. Looking at the problem in this light, it is not surprising that the two great financial blunders of the war should have been committed; namely, that more Currency was issued for the Northern States alone than had formerly sufficed for the whole country, North and South, and the National Banking system was established.

The means adopted by the government to supply this fancied "want of Money" were to issue Currency enough to make the circulating medium thrice as large as it was before, thereby enhancing the price of all commodities threefold against itself, and also, under the plea that it was necessary to have a *national* Currency, to establish the National Banks. The expectation was, that Money would by these means be rendered more plentiful, so that there would be enough, to adopt the common phrase, to "float" the heavy loans which the government was obliged to raise, and to enable the people to bear the heavy taxation which had become necessary. But it is easy to prove that the "want of Money" was not the real difficulty which the government had to contend with, even in the darkest days of the war; and that an increase in the stock of Currency, or even of Money properly so called, if that had been possible, would not have lessened, but would have greatly augmented, the wants of the Treasury.

War is certainly not carried on with Money. We do not consume or use up gold and silver, while waging hostilities; and a large issue of bits of paper, inscribed with a "promise to pay" which no one believed would be kept till after the close of the war, was not a likely mode of helping the country out of its difficulties. What was actually needed for the purposes of the war was, first, the services of about one million of men in the field, — say, one fifth of the whole working population of the North. Of course, the remaining four fifths would be obliged to do the work, or as much of it as they could, originally performed by the whole number. They had to feed, clothe, and shelter, not only themselves, but one million of soldiers, sailors, and officers, who were diverted from the lucrative pursuits of general industry to the unprofitable occupations of war. Still further, the country, in these its four years of great trial, besides the direct services of this vast number of men, needed six hundred and fifty ships of war, of all sizes and patterns. It needed at least two millions of rifles

and other small arms, about three thousand field, siege, and sea-coast cannon, varying in dimensions and cost, and perhaps a million of horses and mules to mount the cavalry, drag the artillery, and transport the baggage and stores of our vast armies. It needed gunpowder, shot, shell, cartridges, harnesses, tents, and accoutrements, in quantities which one would vainly attempt to estimate. A mere catalogue of the miscellaneous articles forming the minor supplies of war waged on this enormous scale would fill a volume. In truth, it would be difficult to mention an article which the government, sooner or later, in large or small quantities, did not have occasion to obtain and consume in the war, *except Money*, which, for all purposes of offence and defence, would certainly have been as useless to the cause as it was to Alexander Selkirk. There was an immense consumption of the articles enumerated, but no consumption of Money. Except an insignificant amount lost by fire, wreck, and other casualties, every dollar, whether of real Money or Paper Currency, which was in the country at the beginning of the conflict, or was created during its progress, remained in existence at its close, and with all its essential properties unimpaired.

In the last analysis, the only requisite for carrying on war, or for conducting any other enterprise whatsoever, is human labor. Besides the direct services of one million of men in the field, the four years' labor of at least another million, another fifth of the entire working population of the North, was consumed in producing the ships, artillery, and other munitions with which the great contest was carried on. Two fifths of the people were thus withdrawn from their ordinary avocations to give their whole time and industry to the exigencies of the war. The task of the remaining three fifths, as already remarked, was not only to maintain themselves, but to support these two millions and their families, and, in addition, to divide with them equitably their ordinary surplus earnings, or what they were accustomed to gain over and above the necessary expenses of living. And this task, great and burdensome as it appears, they accomplished. The whole people, including the army and navy, were fed, clothed, and supported during the four years of strife, not without some privation and hardship to a portion of them, but nearly at their usual rate of comfort, without incurring any foreign debt. Though a por-

tion, comparatively a small one, of the national debt was sold in Europe during the war, or soon after its close, it was thus disposed of, not by the government, but by private owners, and not from necessity, but choice, because German and Dutch capitalists were willing to give more for it than it was worth at home.

It is certain, then, that the whole cost of the war, enormous as it was, was defrayed out of the surplus earnings of the people, the net product of the national industry, during the four years of conflict. Besides furnishing all the men for the army and navy, the Northern States produced all the war material, all the munitions and supplies, through the industry of those years alone, leaving the accumulation of Capital in the country intact, or just as large as ever. Of course, the country availed itself, as in former years, of the conveniences of exchange with foreign nations. A portion of the supplies, some of the raw material which the American soil is not fitted to produce, and even some of the manufactured goods which could be more cheaply made elsewhere, were purchased abroad. But these were paid for out of our other surplus products, by American wheat, petroleum, lumber, native gold and silver, and manufactured goods. All was produced or paid for out of the surplus earnings of the time, leaving the stock of Capital in the country unimpaired, and most probably increased.

It follows, as the lesson specially applicable to the present subject, that the whole cost of this war to the North might have been defrayed immediately, leaving no debt behind, and *without any use of Money*, by a direct tax in kind. It was only necessary to appropriate by law to national purposes two fifths of the labor of every working person, and two fifths of the production of all the Fixed Capital, in the Northern States. In so doing, the government would have taken two fifths of the working people by conscription, and obliged them to devote their whole industry to the public cause; and it would have paid them in kind, — that is, in food, clothes, and other necessaries, — not the equivalent of their ordinary wages, but only three fifths of such wages, the remainder being defrayed by taking two fifths of all the products raised or manufactured by the labor of those who continued to work in their old way.

It was not deemed advisable — it would have been very impolitic — to meet the whole drain of the war in this manner, which

is precisely the mode adopted by barbarous or half-civilized tribes. Tell most persons that they must immediately, and every day, for four years, give two fifths of their time and best efforts to some great public cause, which, however high and important, yields them no present return, and have only the remaining three fifths of their time to work for themselves, and they will become so dispirited that their labor will cease to be efficient; it will be of little worth, either to themselves or the public. But offer a compromise, which will enable them to throw a great part of the burden upon the future, and to distribute it equally over a long series of years, even at the cost of paying heavy interest for such postponement, and they will gladly accept the proposal, if the exigency, in their view, demands such a sacrifice. This was the course which the government adopted. The owners of the Floating Capital, from the mechanic who had laid by a few hundreds from his earnings up to the milliomaire capitalist, agreed to advance *full* wages to the two millions who were to labor exclusively for the war, and to allow the other three millions of workers still to command the *full* fruits of their own industry, on condition that the whole people would repay them, principal and interest, in the way of an annual tax on industry for many years to come. This advance, to recur to the principles already stated, was not of Money, but of Floating Capital; it was not so many dollars (for there were not 3,000 millions of dollars, nor anything like it, in the country during the war-period); but it was so many dollars' worth of commodities and merchandise, which alone possess intrinsic value or capacity to satisfy human wants.

Leaving here the discussion of the general theory of the subject, we go back to consider more particularly the nature and uses of real Money, that is, of gold and silver coin. Money is merely a contrivance for measuring values and diminishing the friction of exchange; and though a safe and convenient, it is also a very costly, contrivance for this end. It is absolutely unproductive except for this purpose; it is a portion of the wealth of the country, it is true; but it is a portion of our unproductive wealth, not of our capital. We are the poorer by the loss of profit or interest on all of it which we are obliged to keep on hand. And even as an article of unproductive wealth, it may be said of Money that it gratifies no taste, and, in its capacity as Money, apart from its character

as a portion of wealth, it yields no enjoyment. Properly speaking, it is never desired for its own sake, but only for the sake of the commodities which it will enable us to procure. The coin which a man keeps in his pocket does not, like his shoes or his hat, contribute to his comfort; it is a convenience to him only as it supplies immediate means for making small purchases or satisfying small demands.

In this respect, it corresponds perfectly, if I may adopt Adam Smith's illustration, to the land which is used for roads and other avenues of passage and transportation. The land thus appropriated yields no rent; it cannot be used for the purposes either of agriculture or building. We cannot do without the roads, any more than we can do without money; but the necessity of devoting much land to this use is a tax upon the community, and a tax to a serious amount; for it yields no profit, and it costs a considerable sum to keep it in repair. So the cost of the Money which a community needs is a serious drain upon its resources. For Money also needs to be kept in repair; the loss by abrasion, by actual rubbing down through much handling, is considerable. The abrasion of silver coin in circulation is estimated at one half of one per cent annually; of gold coin, one tenth of one per cent annually. The deficiency in weight of the old, worn coins, when they are called in to be recoined, has to be made up by the public. McCulloch estimates the whole loss from abrasion, and from such accidents as shipwrecks, fires, and forgetting the places where hoards of it have been buried or otherwise concealed, at one per cent a year.

This, however, is not the heaviest charge which the possession of a large amount of coined money entails upon the nation. The loss of profit or interest may be estimated by regarding the specie currency as so much unproductive wealth, which, if it were turned into active capital, would increase the national income by a large annual profit. The aggregate currency in this country in 1860, just before the Rebellion, was about 350 millions of dollars; namely, 200 millions in bank-bills, and about 150 millions in specie. The average rate of profit throughout the United States is at least as high as ten per cent; add one per cent for the loss by abrasion, and by shipwrecks, fires, etc., and we have over 38 millions for what would have been the annual cost of our cur-

rency, had it consisted exclusively of specie. In fact, nearly two thirds of it consisted of bank-notes, a cheap substitute for coin; so that the actual cost was but eleven per cent a year on 150 millions of specie.

There is no occasion to undervalue the real service that is rendered by Money; it is just as essential in every civilized, nay, in every barbarous community, as a system of roads or other means of transportation. Our only point is, that it is a very expensive servant, and that the true policy of nations is to get along with the use of as little of it as possible. We need a certain amount of Money, proportioned to our population, the extent of our territory, and the magnitude of our commercial operations; to attempt to amass a larger amount than this, would be as great a folly as to lay out a greater number of roads than is necessary, and to build more carriages than are needed to carry the freight and passengers. Because specie is costly, there have been invented of late years a great variety of cheap substitutes for it, chiefly various forms or sorts of bank-notes, some of which are very useful, and others very mischievous expedients. The great advantage that gold and silver money possesses over them all is the perfect security that it affords; the great disadvantage is its expensiveness.

It would seem, then, that almost any commodity might, by common consent, be used as Money; and, in fact, different nations have employed a great variety of articles for this purpose. The North-American Indians used wampum, or small shell beads strung together, as ornaments; and our Puritan fathers, having very little silver and gold, gravely adopted this Indian money, and conducted their own traffic with each other, as well as with the savages, in wampum. Afterwards they used Indian corn, their staple product, as currency. Some African and East-Indian tribes use cowries, another kind of small ornamental shells strung together; the inhabitants of Newfoundland adopted dried cod for this purpose; and the Abyssinians, rock-salt.

Some considerations of convenience, however, have generally inclined civilized nations to adopt one or more of the metals for use as Money. "Metals can be kept not only with as little loss as any other commodity, scarce anything being less perishable than they, but they can likewise, without any loss, be divided into any number of parts, and by fusion these parts can be easily reunited,

— a quality which no other equally durable commodities possess, and which renders them peculiarly fit to be the instruments of commerce and circulation." The quantity of metal can be proportioned to the precise quantity of any other commodity which we have occasion to purchase. The weight and purity of a lump or bar of metal can also be determined, once for all, with great exactness; and when determined, they can be made known by a stamp, proper precautions being taken against this mark being counterfeited, and the stamp being made to cover the whole surface of the piece, so that no portion of it can be abstracted without the loss being readily perceived. The trader is thus relieved from two very considerable inconveniences, — the trouble of weighing and of assaying every piece of metal which he receives.

The want of a convenient medium of exchange increases in a direct ratio with the progress of the Division of Labor, and the consequent development of commercial industry. In the earliest stages of society, when each family raises and manufactures nearly all the commodities which it consumes, and therefore needs to effect but few exchanges, and can generally transact these by directly bartering its superfluities for necessaries, a very rude medium of exchange will be sufficient, or the people can do without Money altogether. But when the Division of Labor is so far advanced that one man manufactures only a part of a knife-blade, or the fraction of a pin, and the industry of his neighbor is equally limited, some article must be selected for use as Money, which will be a convenient and universally acknowledged measure of value, and possess all the other attributes requisite for effecting exchanges with quickness and facility.

Various metals have been used at different times for this purpose. The Spartans adopted iron, the ancient Romans copper, the Russians, at one time, platinum; but modern nations, with great unanimity, have preferred silver and gold. One reason for this preference is, that they have great value in proportion to their weight and bulk. Silver, of course, is less convenient in this respect than gold; to pay a debt of a quarter of a million of silver dollars would require the transfer of about seven tons of metal. But the capital consideration in favor of these metals is, that they are less subject to fluctuations in value than any other commodity whatsoever. From the time when the precious

metals were first generally adopted for this purpose, up to the year 1848, they underwent only one great change in value, — that which followed the great increase in the supply of them consequent upon the discovery of the mines in Spanish America. This event, in the course of a century and a half, caused a depression of their value to about a fourth part of what it had been; that is, an ounce of silver or gold in 1650 would purchase but one fourth as much food as could have been obtained for it a century and a half earlier. With this exception, and excepting also the change which the influx of Californian and Australian gold is now effecting, the precious metals have been very steady in value; their quantity cannot be suddenly diminished; and the demand for them is so great, that any unusual productiveness of the mines cannot speedily lower their value.

For obvious reasons, two or three metals are generally used together, for different denominations of money, in the same currency. Gold, which contains the most value in proportion to its bulk, is most convenient for large payments; it is not so well adapted for "making change," as it is called, or settling the fractional parts of an account, even the gold dollar which is coined in the United States being inconveniently small. For sums varying from five cents to a dollar, silver is the most convenient medium, copper being used when even a silver piece would be too minute in size.

"Whatever may be the advantages attending the use of coined money," says McCulloch, "and they are great and obvious, it is necessary to observe that its introduction does not affect the nature of exchanges. Equivalents are still given for equivalents. The exchange of a quarter of corn for an ounce of pure unfashioned gold bullion is undeniably as much a real barter as if it had been exchanged for an ox or a barrel of beer. But supposing the metal to have been formed into a coin, — that is, marked with a stamp indicating its weight and fineness, — it is plain that circumstance could have made no change in the terms of the barter. The coinage saves the trouble of weighing and assaying the bullion, but it does nothing more. A coin is merely a piece of metal of known weight and fineness; and the commodities exchanged for it are always held to be of equal value."

To ascertain the relative value of different commodities *at any*

one time and place, I have already said that Money is the best measure, simply because a silver dollar or a gold sovereign is a well-known and convenient unit of measurement; when the coinage is in a perfect state, any one dollar or sovereign is precisely equal in weight and fineness to any other dollar or sovereign; and every article of value is more frequently exchanged for Money than for any other one commodity. Tell a shoemaker that a certain house is worth *so many dollars*, and the information will be definite and intelligible to him; for he has been accustomed to barter shoes for dollars, so that, knowing what is the relative value of these two things, he can know by inference the relative value of the house and shoes, — the article that he is best acquainted with. But tell him that the house is worth *so many oxen*, and the information will probably be of little use; for he has not been wont to exchange shoes for oxen, and he knows that oxen differ widely from each other in value.

To ascertain the relative value of commodities *at different times*, especially if a long lapse of years has intervened, a bushel of wheat is a better unit of measurement, though still an imperfect one, than a dollar. The discovery of new mines or deposits of the precious metals, or the exhaustion of old ones, may have so far affected the value of bullion, that an ounce of it at the later date may purchase only half as much, or twice as much, as at the former one. The quantity of silver contained in a dollar in 1650, for instance, would buy only one fourth as much grain or meat as in 1500. But it cost about the same amount of labor to raise a bushel of wheat at one of these periods as at the other; and the whole quantity of wheat raised in England bore about the same proportion to the whole number of persons to be fed. The value of wheat, then, taken *on an average for long periods*, is more stable than that of gold and silver. Still it is but an approximation to the ideal standard of value, which should be absolutely invariable. The corn-rents of lands in England which are let on very long leases have depreciated in value much less than the money-rents. A still nearer approximation to a fixed standard of value might be obtained by taking the *average* prices of a dozen of the most necessary articles in common use, wheat being one of them, and sheep, oxen, hides or leather, wool, tallow-candles, soap, etc. being added. In the average of many, the effect of accidental

circumstances in varying the price of any one of them for a few years would be less a source of error.

The relative value of commodities *at different places*, as well as at different times, cannot be determined with any accuracy. Owing to differences of soil and climate, and the number of articles that are used for human sustenance, the cost of food varies widely in different parts of the globe. The value of the precious metals in different lands will depend upon the extent of the use which is there made of them, upon the distance of the mines that produce them, and upon the ease or difficulty of communication with the mining-regions. Perhaps the nearest approach to a standard in such cases may be found in the value of an ordinary day's labor of a person of average strength and health. But it can be easily shown that this is only a rude approximation to the truth. According to Mr. Senior, "the average annual wages of labor in Hindostan are from one pound to two pounds troy of silver a year. In England, they are from nine pounds to fifteen pounds troy. In Upper Canada and the United States of America, they are from twelve pounds troy to twenty pounds. Within the same time, the American laborer obtains twelve times, and the English laborer, nine times as much silver as the Hindoo." This inequality must be attributed in great part to the undue depression of the laboring classes both in England and Hindostan, arising from the very unequal distribution of wealth in the two countries; the great bulk of the population thus consisting of laborers for hire, who are solely dependent upon wages, and are constantly competing with each other for employment. In Hindostan, this effect is very much increased, of course, by the low standard of living, and the cheapness of rice and cotton cloth, which, in that climate, are almost the only necessaries of life. In America, the laborer must have thicker and better clothing, more fuel, and a more perfect shelter from the weather; and he also expects a greater amount, variety, and delicacy of food.

Money is not merely a sign of value, because it possesses value in itself; it is the thing signified. It is custom and the general consent of the community, not the authority of government, nor the stamp upon the face of the coin, which causes Money to pass current, like other commodities, and to be received in exchange for them. The stamp is a convenience, as we have seen; for it

saves the trouble of weighing and assaying every piece which the seller receives. But if government should affix the stamp which now belongs to a silver dollar to a piece of copper of similar shape and size, and should call this base coin a dollar, it could not oblige the people to receive it as such, or to give their goods in exchange for it at its nominal valuation. The business of coining Money, or of dividing the precious metals into pieces of a convenient shape and size, and affixing a convenient stamp, is usually retained exclusively in the hands of the government, to secure the advantages of uniformity, undivided responsibility, and public confidence. If individuals were allowed to assume this office, we should be perplexed by a multitude of coins of different denominations, and we could never be sure that the stamp correctly indicated the weight and fineness of the metal.

Seigniorage is a charge made by government to defray the expenses of the mint, or the cost of converting bullion into coined money. The machinery for coining money is now brought to such perfection, that the actual expense of this process is but trifling; it is computed to amount to one-fifth of one per cent (.002) for gold coins, and three-fourths of one per cent (.0075) for silver coins. Some governments, among which, till recently, were those of Great Britain and the United States, performed this work gratuitously, or took upon themselves the expense of the coinage. Any person might carry any amount of gold and silver bullion of the requisite fineness to the mint, and, after the time required for coining so much metal had elapsed, or as soon as the demands of previous applicants were satisfied, he was entitled to receive an exactly equivalent weight of gold or silver coins. But the time required for the process, or to satisfy previous comers, involved the loss of a small amount of interest; and it was therefore provided that the depositor of gold bullion shall always pay one half of one per cent in order to receive the coin immediately, and the government reserves to itself the privilege of issuing as much silver coin as the public seem to require, at a profit of about five per cent. The French government levies a seigniorage of one third per cent on gold and one and one-half per cent on silver.

Some writers have contended that the state should not make any charge for coining Money, but that the expenses of the mint should be defrayed by the public. They have an indefinite impres-

sien that the quantity of precious metals in the country might thus be increased, persons being encouraged to bring them hither by the opportunity of having them manufactured, or coined, gratuitously. Of course, this liberal offer of the government would tempt them to bring more bullion here to be coined; the only question is, whether it would stay here after it was coined. It is difficult to see that the country would gain anything by having fifty millions of dollars annually brought hither in bullion for the sole purpose of receiving the government stamp, and then immediately exported to Europe, without paying our mint anything for the process which costs over half a million of dollars. During the five years beginning in January, 1850, the United States mint and its branches coined over 260 millions of dollars in gold. Hardly one third of this great amount of coin was needed for our own use; in fact, the custom-house returns during this period show that about 170 millions in specie were shipped from this country to Europe. What possible advantage can there be in bringing hither more gold than we want, transporting it first from San Francisco to New York, thence to Philadelphia, coining it there gratuitously at a heavy expense, carrying it back to New York, and then shipping it off immediately to London or Paris, where it will be melted up as soon as possible, and converted into English or French coins? Why should it not be shipped immediately to the place where it is needed, thus saving the entire expense of coinage, the cost of much unnecessary transportation, and the interest on the whole amount for at least two months' needless delay? It must not be supposed that England will obtain the gold, either as bullion directly from San Francisco, or as coin by way of New York, without rendering a full equivalent for it in other commodities; or that the United States suffer any loss by allowing the miner to exchange his gold for other goods. Gold is only an article of merchandise, like copper, tin, and iron; and, like them, it must be sent to the market where it is most wanted, and where, consequently, it can be sold to the greatest advantage. Would it be good policy, in order to increase the stock of copper in this country, to enact that the pig-metal should be manufactured into sheets, plates, and rods at the expense of government, without charge to the owner, who should also receive a free gift of the interest on the whole value of the copper during the time required

for its manufacture? Such a law would doubtless bring all the Chilian copper hither, to be put into a form fit for use, and England and France would then obtain their share of it without any charge for the transformation it had undergone.

An alteration in the relative value of gold and silver, or, indeed, of any other two media of exchange which are united in one currency, produces immediately a marked effect. The one which has lost value relatively, since it now passes for more than it is really worth, at once displaces or pushes out the other, and takes the whole circulation to itself. It seems paradoxical that the community should prefer bad Money to good; but the reason is obvious. Suppose the paper dollar to be so depreciated that it is actually worth only 98 cents in coin, though it is still legal tender for a dollar; then, every one who pays a debt or makes purchases with specie really gives two per cent more than is necessary. This difference, though it may appear slight, becomes considerable when the amount is large; by paying paper instead of coin, the debtor saves $ 20 on every thousand. Those who hold the specie, therefore, will use only paper in their ordinary transactions, and will either melt up the coin or send it abroad, since they can thus obtain as much value for $ 980 as they would otherwise receive for $ 1,000.

Hence it is easy to see why specie disappears from circulation as soon as Paper Money is made legal tender. Even if the quantity issued is not excessive, (which it almost always is,) the paper dollar is still at a slight disadvantage as compared with coin; for it cannot be exported. Merely because we cannot buy goods with it from foreigners, it will not be worth so much as coin by one or two per cent; and even this difference will cause the gold to be hoarded or sent out of the country. When the depreciation increases to four or five per cent, even the silver "change" will disappear; it will be gathered by brokers, and either be melted or sent abroad. In 1862, the banks and the government having suspended specie payments January 1st, all the gold coin in the country was immediately hoarded; and before the next July, nearly all the silver was sent to Canada, and we were compelled to adopt, first, post-office stamps and omnibus tickets, and then "fractional currency," or "shin-plasters," as it was derisively termed, for purposes of small change.

The same principle, that the bad Money always drives out the good, explains the difficulty which has been experienced, both in England and the United States, in getting rid of a worn and clipped silver currency. In 1695, English silver coins had thus lost so much of their value, that 30, instead of 21, shillings passed for a (gold) guinea; and though eight persons were hanged in one day for the crime of clipping, the evil continued to increase. The government erected new machinery in the mint, and issued new and perfect half-crowns, shillings, and sixpences in great numbers; but, to their amazement, this good Money disappeared as soon as it was issued, and only the mutilated coin remained in circulation. People marvelled exceedingly, says Macaulay, "that everybody should be so perverse as to use light money in preference to good money. In other words, they marvelled that nobody chose to pay twelve ounces of silver, when ten would serve the turn." Government at last adopted the proper course by taking upon itself the cost of renovating the whole coinage, forbidding the clipped money to be received in commerce for more than its actual value by weight, as so much bullion; but offering on its own part to give new and perfect shillings and sixpences for as many light and defaced ones as might be brought to the mint. Many short-sighted persons advised the government to put only ninepence worth of silver into the new shilling, and thus save to the public treasury a portion of the heavy cost of this recoinage. But the wiser and manlier course, which John Locke counselled, was adopted, — not to sanction the current depreciation or take any advantage from it, but to go back to full specie payments. The cost to the Treasury was between two and three millions sterling; but then prices of commodities ceased to fluctuate, and it was no longer necessary to hang people for clipping and coining.

In like manner, the small-coin circulation in this country, some thirty or forty years ago, was much infested with old Spanish quarters, eighths, and sixteenths of a dollar, which were so much worn and clipped as not to be worth, on an average, more than 90 per cent of their nominal value. There was also an ugly foreign coin, called a *pistareen*, so much abraded that it was worth only about 18 cents, though it passed current for 20. So long as we were foolish enough to keep up the nominal valuation of these foreign pieces, all the worn-out coins of Spain, Spanish America,

and the West Indies came hither and filled up the channels of circulation, while the new American pieces, of full value, disappeared as fast as they issued from the mint. The government at last adopted a quick and simple remedy for the evil; it refused to receive the worn-out currency except at 20 per cent discount, though it had really lost only about 10 per cent of its value; and this movement being seconded by the banks and other public institutions, the old coins were immediately collected and melted up, as they could not be circulated except at a loss of 10 per cent.

We can now understand the evil and the difficulty of attempting to keep up a double standard of valuation; that is, of ordaining that *both* gold and silver shall be the measure of value. This can be done, of course, only by determining very accurately the relative value of these two metals; in other words, by declaring how many grains of silver shall be the equivalent of one grain of gold. Unfortunately, the ratio of these two values is inconstant. Governments are unable to keep it fixed; it fluctuates slightly from year to year, and even from week to week, according to changes in the bullion-market, depending on the varying needs of business and the varying productiveness of the mines. Fix the relative values of the two metals in the coinage as accurately as we may, for the time being; before a year has elapsed, a change may occur in the bullion-market, and then the coin of that metal which is overvalued in respect to the other — that is, the one which passes for a little more than it is worth — will push out of use the other, which passes for a little less than it is worth. There will be a profit in continuing to use the former only as Money, and in melting the latter up into bullion, to be sold as a commodity. No matter how slight the change may be, even if not more than one per cent, it will destroy the balance of the circulation; and then the public will suffer from the want, either of gold coins wherewith to make large payments, or of silver coins wherewith to make small payments.

To maintain both gold and silver as measures of value is as hopeless an undertaking as trying to make two clocks the standards of time. Though they should be adjusted to each other ever so accurately, still their varying rates would soon create a slight discrepancy between them, and then no one could tell what time

of day it was. England adopted gold as the only standard in 1816; the United States did the same in 1853; and, since those periods, the coinage of both countries has been in excellent condition, leaving nothing to be desired. Formerly, each of these governments attempted to make both gold and silver the common measure, and thereby suffered great inconvenience by the frequent changes of the law, by the disappearance of one kind of coin from circulation or its presence only in a worn and degraded state, and by the frequency of the crimes of counterfeiting and clipping.

In the United States, up to 1834, the dollar, which was our legal tender, contained either 24.7 grains of *pure* gold, or 371.25 grains of *pure* silver. These numbers are to each other, very nearly, as 1 to 15, which was about the relative market value of the two metals when this regulation of the mint was first established. But silver becoming more abundant through the increased product of the Mexican mines, gold rose in relative value, and therefore disappeared from circulation. To bring it back again, Congress altered the law, and put only 23.2 grains into the gold dollar, leaving the silver dollar as before, thereby establishing the ratio of 1 to 16. This answered admirably for a while, the two metals circulating side by side, and the coins from both being in good condition.

But in 1851, through the great increase in the annual product of gold from California and Australia, gold was depreciated, and silver rose in relative value. As the inevitable consequence, American silver coins of full weight began to be scarce, and worn and defaced ones were attracted hither from other countries. It became very difficult to effect small purchases, or to obtain "change" for a dollar. Congress had now to undo what it had done in 1834; and as it was supposed in 1851 that silver would continue to rise relatively, as gold fell in value through its increased annual product, it was wisely determined to adopt so decisive a measure that the necessity of another change would not soon recur. The double standard was surrendered, and gold was established as the only measure of value. According to the law of 1853, nothing but gold coin is a legal tender for any debt exceeding five dollars in amount. Silver coins, like copper ones, are retained in the currency only for subsidiary purposes, — that is, for paying small sums and adjusting fractions of a dollar; they

are legal tender only when the sum does not exceed five dollars. Copper coins, usually made to pass for nearly twice as much as they are worth, are legal tender only up to the smallest denomination of silver coin. To retain silver in this subordinate position, — not a measure of value, but a convenience for small payments, — Congress resolved, in 1853, that only 345.6 grains of *pure* silver should be put into a silver dollar, instead of 371.25 grains as formerly, — the reduction being about 6.91 per cent. Thus the ratio of gold to silver in our coins, instead of being 1 to 15, as it was up to 1834, or 1 to 16, as it was from 1834 to 1853, is now 1 to 14.884. The actual ratio in the bullion-market is now about 1 to 15.6. Hence, the legal ratio before 1853 undervalued silver about two per cent; the present one overvalues it nearly five per cent, so that there will be no occasion to make any further change till gold has fallen relatively more than five per cent below its present value. At the same time, because silver is legal tender only to a small amount, it cannot drive gold out of the circulation. The effect of this system is, that the mint charges a seigniorage of five per cent for coining silver, and refuses to coin more of it than is needed to supply the country with small change.

England adopted this system, giving up the double standard and demonetizing silver, thirty-seven years earlier. The adjustment of the relative value of the two metals made in 1695 worked admirably for a time. But silver steadily rose in value after 1717, so that perfect silver coins disappeared, and only those which were worn or clipped remained in use. In 1816, therefore, Parliament reduced the quantity of silver in the shilling 6.45 per cent, thus establishing the ratio at 14.21, which is so much below the real value of silver that a necessity for further change is not likely soon to occur. At the same time, gold was adopted as the sole measure of value, and the overvalued silver was prevented from driving the gold out of use, by enacting that silver coins should be legal tender only to the extent of forty shillings. The power to issue these coins is vested solely in the government mint, so that too many of them may not be thrown into circulation.

Under this system, as I have said, the coinage of the two countries is in a perfectly satisfactory state. The gold and the silver coins in use are of full weight, convenient quantities of each are in

circulation, and no further alteration of either is likely to be required, as the relative value of silver to gold will not probably fall below 1 to 14.88 for many years. But England has virtually kept her standard of value unaltered for nearly two centuries, as she has not changed the quantity of gold in the pound sterling for that time, but has only diminished the quantity of silver in the shilling. The United States, on the other hand, by taking off six per cent from the gold dollar in 1834, and seven per cent from the silver dollar in 1853, has made an absolute, and not merely a relative, diminution of the standard of value. Hence the English pound sterling, which, before 1834, was worth $4.57, is now worth $4.87. At present, this is the *real* par of exchange between the two countries, the same quantity of gold being coined, in England, into one pound sterling, and, in this country, into $4.87. Before 1800, the par of exchange between the two countries was $4.44, silver being then of higher relative value than it is now. In the calculations of merchants, this sum, $4.44, continues to be the nominal par. The whole matter is much simplified by regarding one grain of pure gold as the real standard of value all over the civilized world.*

The principle, that money which is depreciated in real value, though to a very slight degree, always drives out the sounder portion of the currency, received a remarkable illustration from the operations of the banks in Massachusetts about fifty years ago. Up to that time, the bills of the country banks were redeemed only at their own counters, in various parts of the State. The operations of trade brought large amounts of their bills into Boston, where they circulated as currency. But the banks in Bos-

* The following figures may be convenient for reference. I have based the calculations upon the quantity of *pure*, not of *standard*, gold and silver, since the alloy in the coins is not considered to have any value, because it would cost more than it is worth to extract it. Thus the value of the coin depends solely upon the quantity of *pure* metal which it contains. Moreover, the proportion of alloy is not the same in different countries; in England, it is only one twelfth; in the United States, it is one tenth.

One pound Troy of pure silver is coined, in England, into 71.73 shillings; in the United States, into $16.66. The English shilling, therefore, contains 89.3 grains of silver; the American dollar, 345.6 grains.

English shilling = $0.23; American dollar = 4.348 shillings.

Then the par with England *in silver coin* is £1 = $4.60.

Twenty shillings, or one pound sterling in silver, contains 1,606 grains.

Twenty shillings, or one pound sterling in gold, contains 113 grains.

ton would not receive them, either on deposit or in payment of notes; for they could not afford to sort them into parcels, and send one little parcel into Berkshire, and another to Nantucket, bringing back from each place a corresponding amount of coin, with all the expense of transportation. These country bank-bills, consequently, not being redeemable in the place where they circulated, were naturally depreciated, or became subject to discount, in comparison with the bills of the Boston banks, which were redeemed in specie on the spot. The discount was very small, varying from one to two per cent, according to the distance of the bank from Boston. What was the consequence? These depreciated, and so far dishonored, bills drove the good Boston bills almost wholly out of the market, and, so to speak, took the circulation to themselves. The depreciated country bank-paper was maintained in circulation; the good bills, not subject to discount, were returned to the banks as soon as issued. Every one knows that the profits of a bank, other things being equal, depend on the amount of their paper which they can keep in circulation. The country banks, therefore, profited by the dishonor of their paper; the Boston banks suffered by keeping up the credit of their bills. This injustice and loss could not be tolerated. Most of the Boston banks entered into a combination, headed by the Suffolk Bank, to compel the banks in the country to make provision to redeem their bills, not only at their own counters, but also in the metropolis, where often they had a larger circulation than in the locality where they were issued. Each of these banks was to be compelled to maintain on deposit with one of the Allied Banks, a sum in specie large enough to redeem immediately any amount of their own notes

Ratio of these two quantities = 14.21, silver thus circulating for about 10 per cent more than it is worth.

One pound Troy of pure gold is coined, in England, into £ 50.97; in America, into $ 248.20.

Ratio of these two quantities, or par with England *in gold* = $ 4.87.

Before 1834. this par was $ 4.57; thirty years earlier, it was $ 4.44.

The American dollar contains 23.2 grains of gold, or 345.6 grains of silver.

Ratio of these two = 14.884.

Market ratio of gold to silver bullion is now about 15.6, or nearly five per cent above the American mint ratio.

The French mint ratio of gold to silver five-franc pieces, of which there are but few in circulation, is 15.5; to the smaller silver coins, it is 14.38.

Par of exchange with France, 25.20 francs = £ 1 = $ 4.87; or, one dollar = 5.17 francs.

which might be offered to any or all the banks in Boston. Then the Allied Banks could afford to receive country bank-bills at par. They would no longer be subject to discount, and would consequently keep only their share of the circulation. If any country bank should refuse to enter into this arrangement, and refuse to make the specie deposit in Boston, the Allied Banks would still receive its paper at par, till, having accumulated a large amount of its notes, they would suddenly, without warning, cause the whole sum to be presented at once at its counter for payment, a measure which would infallibly break the recusant bank.

This was the famous Allied Bank, or Suffolk Bank system, the object of so much discussion and obloquy at the time, but now so fully vindicated, and still in successful operation. So great are its advantages, even to the parties who at first fancied themselves oppressed by it, that other country banks, not within the range of the system as first proposed, have petitioned to be admitted into it. It is both the duty and the interest of every institution that issues bills to serve as currency, to preserve these bills from depreciation in every place where they circulate to any extent. If, by any strange chance in the course of trade, the bills of our Boston banks should come to circulate in London, strict justice and sound policy would require them to make provision to redeem their paper in that city.

The precious metals have an inherent value of their own, wholly apart from their use as money. They are used in the arts, in fabricating plate and jewelry, and thus bear a price in the market like any other commodity, founded on the uses which they subserve, and the difficulty of obtaining them, or the amount of labor which must be expended for their production. It is a knowledge of this fact, that they have an independent value, less liable to fluctuation than that of any other commodity, which gives them currency as money, and causes individuals to receive them with confidence that their value will not be depreciated while in their hands. And it is important to observe, that their adoption to serve as money considerably augments their intrinsic value, or their worth as an article of commerce. It is equivalent to the discovery of a new utility of these metals, and a consequent enlargement of the demand for them, while the supply is left as it was before. The employment of a great part, the half, or perhaps three fourths, of the

whole stock of them on hand, as money, necessarily renders the whole more scarce and dear. In a word, the employment of the precious metals in manufacture makes them scarcer and dearer as money; and, in like manner, their employment as money makes them scarcer and dearer in manufacture.

There is a larger demand for silver in the arts, and for purposes of ornament, than for gold; and this larger consumption of silver makes its value higher in comparison with gold than it would be if their respective values were determined solely by the comparative quantity of each which is produced or can be obtained. Silver plate, in greater or less quantity, is in almost universal use; gold plate, from its greater expensiveness, is hardly at all in use, except by crowned heads, or persons of immense fortunes. Silver-plated ware is also manufactured in great quantities, while comparatively few articles are coated with gold, except in the form of gold-leaf, which is very cheap on account of its marvellous tenuity and fragility. Silver spoons are to be found in almost every house; and the consumption of this metal for watches and trinkets is also very great. The consequence is, that, though 45 times more silver than gold existed, and was annually produced from the mines, the value of silver was to that of gold, not as 1 to 45, but as 1 to 16. Its cheapness enlarged its use; and the extensiveness of its use, on the other hand, counteracted its cheapness, or rendered it dearer.

If we apply this principle to the depreciation of the value of gold, which is now taking place on account of the recently enlarged supplies of that metal, we see at once a new limit to that depreciation, or a reason why it cannot go so far as it otherwise would. To double the present amount of gold bullion in the market would not be to sink gold coin to half of its present value. As its value fell, the use or consumption of it would be greatly increased. Gold plate would become fashionable, gold trinkets would be far more common, and gold would even be applied to certain purposes in the arts, for which it is admirably fitted by its ductility, great specific gravity, and power of resisting oxidation or corrosion, — uses from which it is now excluded by its high cost. Also, in its use as money a larger quantity would be required. 200 millions would be needed to effect exchanges that are now made with 100. The discovery of America increased the supply of gold and silver tenfold; but they were thereby reduced, not to one tenth, but only to one fourth, of their former value.

In former centuries, governments, when heavily in debt, often had recourse to a depreciation of the coin as a means of relieving themselves from their embarrassments. It was beyond their power to effect an actual change in the market value of gold and silver bullion, such as would result from an enlarged or diminished supply of these metals from the mines. But their debts were contracted in a certain denomination of coin, just as a debtor at the present day is bound to pay a certain number of *dollars*, under an implied, but not an express agreement, that the dollar shall retain its present amount of metal, — that is, 345.6 grains of silver, or 23.2 grains of gold. If the government should decree that the dollar in future should contain only 172.8 grains, he might nominally release himself from his debt by paying only half of what he had really contracted to pay. This is a very rude expedient, — an actual license of universal bankruptcy, all claims being released on a payment of 50 per cent. It has not been tried in modern times, for even the courts of law would afford a remedy against so gross a fraud. But it was frequently resorted to in the Middle Ages, and a curious monument of the fact is preserved to us in the names of certain coins. The English pound sterling, in the time of Edward I. contained a pound Troy weight of silver of known fineness; and the English *penny* was then a real *pennyweight* of silver, — the twentieth part of an ounce, or the two hundred and fortieth part of a pound Troy. Even the word *shilling* seems to have been originally a denomination of weight, or another name for an *ounce*. By successive depreciations of the coin, the pound, shilling or ounce, and pennyweight of Money have come to contain only a third part of the silver which their names indicate. A pound sterling contains less than four ounces Troy of silver. The Scotch pound has only a thirty-sixth part, and the French *livre*, or pound, only a sixty-sixth part, of their original weight of silver.

This mode of depreciating the *metallic* currency was called, by a singular abuse of language, "raising the standard." It has not been tried in modern times, as I have said, because it is so palpable a fraud that the courts of law would probably afford a remedy against it. But these courts give no redress, as we all know, against a depreciation of *paper* currency precisely similar in its character and effects.

CHAPTER XIII.

THE DISTRIBUTION OF THE PRECIOUS METALS THROUGHOUT THE WORLD: SUBSTITUTES FOR MONEY AND MEANS OF ECONOMIZING ITS USE: BILLS OF EXCHANGE: THE DECLINE IN THE VALUE OF MONEY.

METALLIC currency, we have seen, is a safe but costly means of effecting exchanges. It is safe, because it is not subject to such ruinous fluctuations of value as have recently taken place in the paper currency of this country. It is costly, because the expense of keeping it in repair, and the loss of profits on so large an amount of what may be called "dead capital," amount, in this country, to at least eleven per cent. It then becomes important to know what are the substitutes for its use, — substitutes which we may expect to find less safe, but also far less expensive, than metallic money. And as a preliminary to this inquiry, we wish to know how much currency is needed in each country; — or rather, since its numerical amount cannot be ascertained with any precision, how the quantity needed is affected by the growth of the population, the extension of commerce, the progress of opulence, and the general state of civilization; and also, by what law the whole quantity now in existence is distributed among the various nations of the earth, and in what way it preserves its equilibrium among them.

In every exchange, the two values which are exchanged for each other are supposed to be equal. Every exchange is a barter of a quantity of merchandise for a certain sum of money which is its equivalent. But it does not follow that there must be as much money as there is merchandise; for as the money is not consumed by effecting this one exchange, it is ready immediately to effect another. The same piece of money may be exchanged successively for any number of articles of merchandise of the same value; in other words, any sum of money can purchase successively quantities of merchandise worth an indefinitely larger sum.

The circulation of money and of merchandise bears some analogy to the *momentum* spoken of in physical science, which is composed of the velocity multiplied by the mass; the *momenta* are equal, though the velocity should be increased tenfold, provided

that the mass is but one tenth part as great. So, also, the *momentum* of wealth is its value multiplied by the rapidity of its circulation. As money circulates far more rapidly than merchandise, it is evident that the quantity of money may be as much less than the quantity of merchandise as the circulation of the money is more rapid than the circulation of the merchandise. If the value of the merchandise which changes hands in a year is a thousand millions, and the circulation of the money is ten times as quick as that of the merchandise, a hundred millions of money will effect all the exchanges. Let the quickness of the money circulation be doubled, and fifty millions will suffice.

"If we assume," says Mr. Mill, "the quantity of goods on sale, and the number of times those goods are resold, to be fixed quantities, the value of money will depend upon its quantity, together with the average number of times that each piece changes hands in the process. The whole of the goods sold (counting each resale of the same goods as so much added to the goods) have been exchanged for the whole of the money, multiplied by the number of purchases made on the average by each piece. Consequently, the amount of goods and of transactions being the same, the value of money is inversely as its quantity multiplied by what is called the rapidity of circulation. And the quantity of money in circulation is equal to the money value of all the goods sold [including all the resales as additional goods], divided by the number which expresses the rapidity of circulation."

Stating the matter algebraically, we have

$$g\,s = m\,r;$$

where g = quantity of goods on sale;

s = number of times the goods are sold;

m = quantity of money in circulation;

r = number of purchases effected by each piece of money.

Of course, any three of these quantities being given, the fourth can be deduced from them. Thus,

$$m = \frac{g\,s}{r};$$

which is the principle just enunciated. It is also evident, that the value of money will be inversely as its quantity; for if we suppose the quantity of money to be doubled, we still have

$$g\,s = 2\,m\,r;$$

whence, $$2\,m = \frac{q\,s}{r};$$

that is, 2 *m* are worth only the same value which was formerly represented by *m*.

This calculation really includes all exchanges that are directly effected by barter, or into which money does not enter; and these, as we shall afterwards see, constitute a large part of mercantile transactions. The formula professedly represents, it is true, only *money* purchases. But to economize the use of money is the same thing as to increase its rapidity of circulation. If, on an average, one thousand exchanges of merchandise are effected with one hundred dollars in money, and if means should be found to carry on half of all trade without any money, then the one hundred dollars will suffice to effect two thousand exchanges. Observe, however, that this economy relates solely to the use of money *as a medium of exchange*, and not at all to its other function *as a measure of value*.

"The phrase, 'rapidity of circulation,'" continues Mr. Mill, "requires some comment. It must not be understood to mean the number of purchases made by each piece of money *in a given time*. Time is not the thing to be considered. The essential point is, not how often the same money changes hands in a given time, but how often it changes hands in order to perform *a given amount of traffic*. We must compare the number of purchases made by the money in a given time, not with the time itself, but with the goods sold in that same time. If each piece of money changes hands on an average ten times while goods are sold to the value of a million sterling, it is evident that the money required to circulate those goods is £100,000."

"*Rapidity of circulation* being a phrase so ill adapted to express the only thing which it is of any importance to express by it, and having a tendency to confuse the subject by suggesting a meaning extremely different from the one intended, it would be a good thing if the phrase could be got rid of, and another substituted, more directly significant of the idea meant to be conveyed. Until an appropriate term can be devised, we must be content to express the idea by the circumlocution which alone conveys it adequately, namely, *the average number of purchases made by each piece in order to effect a given pecuniary amount of transactions*."

As a nation increases in opulence, the value of the merchandise it circulates also increases; and consequently it has need of more money. But this need does not increase *in the same proportion* with its wealth. In rich countries, the activity of the circulation enables the people to effect their exchanges with a smaller quantity of money. A given sum will suffice for ten exchanges, when, in a poor country, it might have effected but one. Besides, it is in wealthy countries that credit most easily takes the place of money. Not only bank-bills, but all sorts of private obligations, — drafts, bills of exchange, sales on credit, and *clearances*, (terms which will afterwards be explained,) — all become substitutes for money.

Confining ourselves for the present to the distribution of *coined money* among different nations, I observe, that the amount which is needed by any country, and which actually circulates among its inhabitants, does not depend in the least upon the quantity which the government of that country sees fit to coin, or upon the activity of its mint. International exchanges bring the coin of one country to circulate in another; sometimes it is melted up and coined over again for this purpose; sometimes it circulates, or is held in reserve, under its original stamp. Often the larger portion of the specie reserves held by our banks consisted of English sovereigns. During the sixteenth and seventeenth centuries, Spain and the Spanish colonies had the first coinage of nearly all the precious metals which found their way into circulation in Europe, simply because Spain owned the most productive silver and gold mines. During the twenty years ending in 1870, the United States mints coined about 900 millions of dollars; and more than three fourths of this sum were sent abroad, most of it probably being melted up and coined over again in Europe. The fact is, — and I crave attention to the statement as an important and pregnant one, — that *the quantity of the precious metals retained in circulation as coin in each country regulates itself*, through its ratio to the amount of money needed by all mankind to effect their exchanges, — regulates itself wholly irrespective of the efforts made by one government, or by all governments, to increase or diminish its amount. If more money is coined than is thus needed to supply the want, it will infallibly be melted up again or be sent abroad; if the mints are not active enough to supply this want, a pressure will be felt

somewhere, which will compel them to quicken their action, or private coiners will take the business out of their hands, or foreign coin will be imported.

No one nation can, either by the efforts of its government, by its laws, or by concert among its individual members, increase or diminish the quantity of money that circulates among them; — by no efforts directly looking towards this end, I should say; for, unquestionably, a tyrannical or foolish government, or an unwise course of legislation, may paralyze the energies of commerce, root out manufactures, or blast the hopes of the agriculturist, and thus lessen the amount of money needed, by destroying many of the enterprises and exchanges in which money is employed. But no laws prohibiting the exportation of specie, or making it penal to melt up the current coin, — no laws designed to foster one branch of trade more than another, under the belief that this particular traffic brings more coined money into the country than any other, — no such laws, I say, can ever permanently increase the amount of money in circulation. Money distributes itself among different nations in due proportion to the circumstances of each, just as easily as water finds its level in a pond; and such legislation as I have just adverted to can have no more effect upon such distribution than would be produced upon the level of the pond by dipping up water in a bucket from one part and pouring it into another.

It is possible, to be sure, to displace a portion, or even the whole of the specie currency, and make paper currency, or some other substitute, take its place; and the specie thus displaced will either go abroad or be melted up. But the total amount of the currency will remain just as before; the value of the paper and the precious metals taken together will be just what the specie alone would be if paper were not used. Suppose, for instance, that the currency of the United States consists of 200 millions of dollars, of which three fifths are paper money, and two fifths are specie. We might destroy all the paper portion, and specie enough would flow in from abroad to make up the currency to 200 millions again; or we might add so much to the paper, that all, or nearly all, the specie would leave us and go abroad. But the impassable limit to the real value of the paper issued would even then be 200 millions of dollars. If 300

millions of paper dollars were stamped and issued, the inevitable consequence would be, that they would sink in value, or become subject to a discount of one third, so that the aggregate *real* value would remain as before.

This self-adjusting power of the currency is a fact which it is difficult to establish directly, because the amount actually needed changes from day to day with the varying opulence of the country and the varying activity of commerce and circulation. If 200 millions be the amount now wanted, 220 millions may be needed next month, as a consequence either of our increased wealth within that time, or of a check to our prosperity and a diminished activity of circulation, growing out of a general want of confidence, and a disposition on the part both of banks and of individuals to hold larger sums in reserve. The practice of hoarding, though most common in the Asiatic states, where it is a precaution taken by individuals against arbitrary exactions by a despotic government, is not unknown in the most civilized communities of Europe and America. In times even of general prosperity and quiet, many persons of the lower and more ignorant classes keep by them a little fund in specie, stored away, perhaps, in an old stocking, as a precaution against a rainy day; and though the establishment of Savings' Banks has greatly diminished the number and amount of these little hoards, there are still enough of them, in the aggregate, to keep a considerable portion of the metallic currency, as it were, in a state of abeyance. If the currency be a mixed one of paper and specie, and if some event should happen to disturb public confidence, such as the bursting of a commercial bubble, or the discovered mismanagement of two or three banks, then commences what is called "a run upon the banks" generally, the effect of which is greatly to increase the number and amount of these hoards. To provide against the possible recurrence of such panics, the banks are obliged to keep much larger amounts of specie in reserve than would suffice for their ordinary transactions. The quantity of specie required as a basis and security for the circulation of the banks is like the thickness of timber and planking in the sides of a ship; it must suffice not merely for ordinary fair weather, but for possible storms and squalls, and now and then a sand-bank. The gold and silver coin thus stored up by banks and individuals is not a part of the

circulation proper; the whole currency of the country may be divided into two portions, only one of which is active, or is daily employed in effecting exchanges; the other for a time is latent. This last portion is somewhat arbitrary in amount, depending upon the character of the people and their mood for the time being; it is only the active portion of the currency which has the self-adjusting power that I have spoken of.

There are now (1870) over 100 millions of specie dollars in the United States Treasury, and probably half as much more held by the banks and by individuals; and this vast sum exists solely as a commodity, — as so much bullion, — and has no more effect on prices than if it were sunk in the Atlantic Ocean; since the prices of commodities here are now determined solely by the quantity of *Paper* Money in circulation. In respect to the varying amounts of specie thus held in reserve by the banks and the government, or hoarded by individuals, and so not entering into active circulation, Mr. Tooke justly observes, that "transmissions of the precious metals might and would take place occasionally between [Great Britain] and other countries to a considerable amount, without affecting the amount or value of the currency of the country from which or to which the transmissions were made; and without being a cause or a consequence of alteration in general prices." The stock of specie and bullion in the Bank of England, which, before 1848, used to average only about eight or nine millions sterling, in the summer of 1852 rose to 22 millions, or more than double the amount which the law regards as a safe basis for its circulation. But the amount of bank-notes in active circulation was not thereby increased; it was not materially greater than it had been six years before. At least 12 millions of this large bank reserve might have been sent to foreign countries, to import corn or any other needed article, without withdrawing a sovereign from the active currency, or affecting in the slightest degree the prices of other commodities.

Every export of the precious metals, therefore, is not to be regarded as a contraction of the currency properly so called, nor is every import of them an enlargement of it. At the present time, in consequence of the large supplies from California and Australia, large amounts of bullion are *in transitu*, — wandering about, as it were, from one country to another, to find where they will be of

most value, — before they pass into active circulation as currency. The stock of bullion in the hands of goldsmiths and silversmiths, ready for conversion into plate or jewelry, and, still more, the stock of it which already exists in the form of plate, the setting of jewels, lace, gilding, etc., might surely be exported in part, or altogether, without affecting the money market, or lowering the prices of commodities generally. But at least seven millions sterling out of the specie reserve in the Bank of England is as dead for all purposes of circulation, or for any effect upon prices, as if it existed only in the form of plate; for the reserve has not fallen below eight millions for the last twelve years, and we have only the word of the bank officers for our assurance that this sum still exists in the vaults, where it has remained undisturbed at least since 1858. It is only when the demand for the precious metals to be exported has so far reduced the stock of specie in the banks as to alarm the latter for their own safety, and thus to cause them to diminish their discounts and their circulation, that the self-regulating power of the *active* currency shows itself.

The power of Money thus to determine its own amount arises from the reciprocal action of the quantity of money *in active circulation* and the prices of commodities. All exchange, as I have said, is a barter of merchandise for money; and the quantity of money which an article of merchandise will command in the market is termed its *price*. Increase that quantity, and the price of all articles inevitably rises; diminish it, and the price as certainly falls. The whole process of exchange may be compared to the operation of weighing with a well-poised balance, the money and the merchandise being placed on the opposite arms of the lever; increase the weight on the money side, and the merchandise is sure to rise.

We can easily see, therefore, why the amount of currency for the whole world distributes itself, by its own laws, among all nations, in exact proportion to their respective wants. If by any means one nation should obtain a larger portion than belongs to it by the regular course of trade, all articles of merchandise belonging to that nation must rise in price; they must be exchanged for a larger quantity of money. Articles of foreign growth and manufacture would be irresistibly attracted thither by this alteration of values. A single article might possibly be excluded by prohibitory legislation. But no arbitrary enactments can so clip the wings of

commerce as to prevent it from seeking a market in a country where the prices of all commodities have risen above their average value all the world over. Foreign goods must necessarily be imported in such a case, whether by open trading or by smuggling; and, being imported, they must be paid for. Money is the only redundant article in such a community, the only one which can be offered in payment; for all other goods are, by the hypothesis, of a higher price with them than in any other country, and cannot be sent abroad but at a sacrifice. Money, then, would be exported in spite of all coast guards, and even of the penalty of death; and the currency would thus be reduced to its natural level.

In the other case, if the currency of any nation should fall below the average proportion to its wants, the prices of all merchandise there would fall, they being exchanged against a smaller amount of money. There would be a tendency, then, to export all commodities, since a profit could be made by the sale of them in foreign countries rather than at home. And in payment for the commodities thus sent abroad, money must be returned till the equilibrium of the currency is restored. Thus the equal distribution of specie among all countries, in proportion to the wants of each, takes place through the inevitable tendencies of trade, all goods invariably seeking a market where they can be sold to the best advantage. The equalization of money is but another name for the equalization of prices. The general principle has been clearly stated by Mr. Ricardo, who has shown "that redundancy and deficiency of currency are only relative terms; and that, so long as the currency of a particular country consists exclusively of gold and silver coins, *or of a paper immediately convertible into such coins*, its value can neither rise above nor fall below the value of the currencies of other countries by a greater sum than will suffice to defray the expense of importing foreign coin or bullion, if the currency be deficient; or of exporting a portion of the existing supply, if it be redundant."

Regarding this principle as established, that the currency is of a fixed amount or value, I come now to consider the various practices and expedients by which the necessity of filling up the whole of this currency with so costly a material as gold and silver coin is obviated. Some of these may properly be viewed, not as substitutes for the precious metals, but as means of economizing its

use, — as practices which have grown up in commercial countries, whereby commercial transactions are really completed without the intervention of any money. Such are what are termed *accounts current*, opened between merchants who have frequent dealings with each other. If, for instance, A has occasion, in the course of a year, to make a hundred different purchases of B, and B to buy as frequently, and about as largely, from A, were each transaction to be completed and settled by itself at the time, two hundred transfers of different sums of money from one to the other must be made in a twelvemonth. But if each party chose to allow the other credit till a fixed time for settlement, then the whole amount of purchases on one side might be deducted from the whole amount on the other, and only the balance be paid in money. If nine tenths of an account are thus settled by offsets, and only one tenth by cash, it is evident that nine tenths of the trade has been a direct *barter* of one kind of merchandise for another, just as if money, or a universal medium of exchange, had never been invented. It is by practices analogous to this, rather than by increased rapidity of circulation, as I believe, that a nation's want of currency does not increase in as rapid a ratio as its population and its opulence. Even when the sales are all made by one of the parties, a person who has credit with him may adjust by a single payment in cash several hundred different purchases made at various times since the former settlement.

Another mode of avoiding the frequent transfer of specie is *the transfer or sale of debts.* If a merchant has a sum of money due to him by one person, A, while he owes an equivalent sum to another, B, he can cancel both obligations at once, without having the money pass through his own hands at all, by simply giving B an order upon A for the amount required. Here, one operation.— one transfer of currency — evidently takes the place of two; instead of A paying the given sum to the merchant, and the merchant immediately paying it over to B, A pays it directly to B, and the account is squared all round. If the merchant does business in New York, while A and B are both resident in London, such an order is called a *bill of exchange*, and the saving of trouble and expense that is effected by it is very obvious; without such an order, A must pay his debt by shipping the required amount of specie from London to New York; and then the merchant, in order to pay *his*

debt to B, must immediately ship the specie back again to London. There would then be a loss of time enough for making two voyages across the ocean, a loss of interest on the money during this time, and the cost of freight and insurance on the amount during two voyages. All this expense and inconvenience are saved by the simple expedient of a bill of exchange, or an order for the transfer of a debt.

It may happen that the merchant, though he has a debt due to him in London, does not himself owe any money in that city; still, he will not be obliged to have the specie sent to him by sea, if he can find another merchant in New York who does owe a debt in London to precisely the same amount. The first merchant, C, will then sell his debt to the second merchant, D, or, in other words, sell him a bill of exchange, which, when paid in London by A to B, at once cancels A's debt to C, and D's debt to B. Two payments of money, the one from A to B, who are both in London, and the other from D to C, who are both in New York, are substituted for two payments, one from A to C, and another from D to B, the direct adjustment of which would be inconvenient, because the respective parties to them reside in different cities.

We can now understand what is meant by the course of exchange. All the merchants in New York who have debts *due to them* in London draw bills of exchange for the amount of these debts, and go into market to sell these bills to other New York merchants who have debts *to pay* in London. If the former set have a larger amount to sell than the latter have occasion to buy, — or, in other words, if a greater amount of debt is due from London to New York than from New York to London, — the competition of the selling merchants with each other will lower the price of these bills a little, or subject them to a small discount. A bill of exchange for one hundred dollars may not bring in the market more than 98½ dollars; the exchange is then said to be 1½ per cent against London, or 1½ per cent below par. It *cannot* fall much lower than this, for the merchant, rather than take 98 dollars for his bill, will cause the 100 dollars to be sent over to him by his London debtor in specie; the freight, insurance, and other charges, cannot amount to more than two dollars. Whenever, then, the exchange falls about 1½ per cent below par, we may

expect that shipments of specie from England to America will begin. On the other hand, if a greater amount of debt is due from New York to London than from London to New York, then there will be more buyers than sellers of such bills in New York market; and the competition of these buyers with each other may cause a bill for $ 100 to sell for $ 101.50. The difference cannot be much greater than this, or it would cause specie to be shipped from America to England. The exchange is then said to be against New York, or 1½ per cent above par.

In order to simplify this explanation, I have supposed the metallic currency of the two countries to consist of the same denomination of coin, — namely, of dollars. But this is not the case; the New York merchant who has a debt due to him in London draws a bill of exchange, not for so many dollars, but for so many pounds sterling, or sovereigns. The exchange, as we have seen, is really at par when a bill on London for 100 pounds sterling sells in New York for 487 dollars; for these two sums contain the same quantity of pure gold. The *nominal* par, established before 1800, and ever since retained in exchange calculations, made the dollar equal to 4*s.* 6*d.* sterling, and the pound sterling, therefore, worth only $ 4.44. The present value of the pound sterling, $ 4.87, is about 9½ per cent more than this; and therefore the exchange is really at par, when, according to the prices current, it is 9½ per cent above par. The expense of shipping specie either way being about 1½ per cent, when the exchange nominally rises to about 11 per cent, specie will be shipped from New York to London; when it nominally falls below 8 per cent, specie will be shipped from London to New York. As the quoted price of exchange at New York is for bills on London at sixty days' sight, allowance must be made for interest for this time.

It is easy to see that the par of the currency of any two countries means, among merchants, the equivalence of a certain amount of the currency of the one in the currency of the other, supposing the currencies of both to be of the precise weight and purity fixed by their respective mints. Thus, according to the mint regulations of Great Britain and France, the same quantity of pure gold, which in London is coined into one pound sterling, in Paris is coined into 25 francs and 20 centimes; and, accordingly, this is said to be the par between the two countries. The ex-

change between the two countries is said to be at par when bills are negotiated on this footing; that is, when a bill for £100 drawn on London is worth 2,520 francs in Paris, and conversely. As we have already seen that $4.87 in New York equals one pound sterling in London, it follows that $4.87 also equals 25 francs 20 centimes in Paris; or, what is the same thing, one American dollar is worth 5 francs 17 centimes and a small fraction, which is the par of exchange between France and the United States.

From the explanation now given, it appears very clearly that bills of exchange represent the items in the *account current* between England and America; and the specie shipped either way is the cash balance that is struck on the adjustment of the account. Bills of exchange are not drawn against air; they represent real transactions. The New York merchant cannot draw bills on London unless he has debts *due to him* there, which debts have been contracted for cotton, flour, tobacco, and other American products, which he had sent thither to be sold. On the other hand, a New York merchant cannot have debts *to pay* in London, except in return for manufactured goods, whether of cotton, silk, woollen, or iron, which he has received from England, and consumed or sold in America. And in the long run, it is evident that our exported goods must exactly pay for our imported goods, or the two sides of the account must balance each other. If they did not balance, if our exports were not equivalent in value to our imports, the deficiency would have to be made up by sending specie abroad; and a continued drain of specie, according to what has already been demonstrated, would raise the value of the money left behind, and, in consequence of raising the value of money, would lower the prices of goods in America; and the influx of specie into England would lower the value of money there, and raise the prices of goods. Erelong, then, the tide would turn; more goods would be sent from America, where they are *lower* in price, to England, where they are *higher* in price; and, in payment for these goods, the current of specie would set in the opposite direction, till the value of money in the two countries was equalized again.

The exports of any country must exactly balance its imports, for the same reason that, when two individual producers of differ-

ent articles trade exclusively with each other, they must really barter merchandise for merchandise, exchanging equivalent values of different kinds; money serving no purpose between them but that of facilitating the exchanges of goods. It is oil that diminishes the friction of exchanges. If, for instance, a hatter trades exclusively with a shoemaker, the former can buy no more shoes than he can sell hats with which to pay for them. He may, indeed, run in debt for a large stock of shoes at once; but that debt he will be obliged ultimately to pay by restricting his purchases of shoes, and enlarging his sales of hats. So, this country, trading with all the rest of the world, can buy no more foreign products than it has domestic products with which to pay for them. Money and bills of exchange cannot help us to pay our debts; they only facilitate and represent the operations out of which those debts have grown.

But it is important to state, that, although we must really pay for our imports with our exports, the former must always exceed the latter in nominal amount, if we take *the home valuation* of both. This may easily be perceived by attending to a single voyage of one ship. Suppose a merchant sends a cargo of oil to Russia, and brings back a ship-load of duck, iron, hemp, and other Russian products. If his venture be a successful one, it is evident that the aggregate value of the return cargo must so far exceed that of the outward cargo as to pay the charges of transportation both ways, and afford a reasonable profit on both parts of the transaction. Estimate the values in the Russian port, and it will appear that our general proposition holds true; the oil exactly paid for the duck, iron, and hemp, — the exports just balanced the imports. Estimated in the American port, the value of the duck, iron, and hemp exceeds that of the oil enough to pay the charges of the voyage out and home and leave a profit.

This illustration brings us to an important qualification of the principle as first stated, and to an explanation of another purpose, or office, of bills of exchange. To simplify the matter, I supposed at first that the United States traded only with England; and we were thus led to the general proposition, that foreign trade is really a barter of merchandise for merchandise, money playing only a very subordinate part in the affair. But foreign trade is actually a long and heavy *account current* of one nation with all the rest of

the world, charges on one side being *set off* by charges on the other, and the account being finally adjusted by the transfer of a comparatively trifling sum in cash. Our trade is not confined to England; it extends to every nation of the earth, and to every isle of the sea. The account is not balanced with each nation separately; far from it. In the case of China, our purchases much exceed our sales; in the case of the British kingdom, our sales much exceed our purchases. We set off one against the other; we pay our debt to China by transferring to her a portion of the debt owed to us by Great Britain, — bills of exchange enabling us to transfer debts not only from one individual to another, but from one country to another. We annually buy tea and other Chinese products to the amount of 10½ millions; we export directly to China less than four millions. The balance, which is evidently too great to be accounted for solely by charges of transportation and profits of trade, we pay by sending to China bills of exchange on London. On the other hand, our annual exports to the British West Indies are far greater than our imports from these islands. We may receive pay for the balance by bills of exchange on London; that is, the West India planters pay us for the articles of provision that we send to them, by transferring to us a part of the debt due to them for the sugar, molasses, spirits, etc. which they have sent to England. These very bills of exchange, emanating from the British West Indies, we might use in paying our debt to China for tea. One article of merchandise is really paid for with another, though the one is obtained from Canton and the other is sent to Jamaica. Very little money is used in the whole circle of transactions; a single shipment of half a million of dollars may suffice to balance an immensely long account, opened with England, the continent of Europe, China, and both Indies, amounting in the aggregate to sixty or seventy millions.

If we examine the facts as they are given in the official returns, we find that they agree with the theory. In the reports for the year 1846, we find the imports amounting to over 110 millions, while the specie sent abroad was less than 4 millions; the exports were nearly 102 millions, and the specie received was a little more than 3¾ millions. In other words, a remittance of $ 127,536 in cash would have settled an account in which 102 millions were sold and 110 millions purchased.

If we examine the returns for a series of consecutive years, and anywhere find an apparent departure from this rule, either by an excessive importation or excessive exportation of specie, we also perceive a corresponding excess of exports or imports, proceeding from some peculiar causes affecting the course of trade for that year; and we find, moreover, a recoil the following year, produced by that self-regulating power of the currency which has been explained. The sudden enlargement of our exports in 1847 was caused by the great amount of breadstuffs, (68 millions, or more than double the average quantity,) shipped from our ports that year, to make up for the famine in Ireland and the dearth throughout Western Europe. The large amount of coin and bullion received in payment for these breadstuffs made our currency redundant, and an effort was made the next year to get rid of the superfluous money. But no action of the government, no combination of individuals, was requisite for this purpose; the matter regulated itself. England had sent away a considerable portion of her currency, and therefore the prices of her commodities fell; the United States had received what England had lost, and therefore prices in America rose. Thus it became profitable to purchase goods in England and sell them in the United States; and thus our imports in 1848 suddenly rose to 140 millions (an excess of 16 millions over the average of 1847 and 1849); and, to pay for these goods, we exported nearly 16 millions of coin and bullion, which restored the balance of the currency. Hence we perceive that a debt to a foreign country is always paid, sooner or later, by sending commodities thither; but if the exigency out of which the debt has arisen be sudden and considerable, such as is produced by a temporary failure of the crops, we send specie in the first place as a sort of pledge that the goods, which are the real means of cancelling the debt, shall soon be forthcoming. This pledge is subsequently redeemed by forwarding the commodities, and the specie then comes back again. At the most, money is only a means of temporary payment; all debts must ultimately be discharged by a remittance of commodities.

When, in the course of international trade, one country becomes indebted to another, the question whether the deficiency shall be first made up by remittances of money or of goods is one that determines itself on the same principles which usually cause one

commodity to be preferred to another as an article of export. The merchant will send the one which he thinks is less valuable at home, and more valuable abroad, than any other commodity. If coin and bullion answer this condition, — that is, if other commodities are dearer at home than abroad, — then coin and bullion will be sent. As Mr. McCulloch remarks, "if a London merchant owe £100 in Paris, he sets about finding out the cheapest method of paying it. On the supposition that the *real* exchange is two per cent below par, and that the expense of remitting bullion, including the profit of the bullion-merchant, is also two per cent, it will be indifferent to him whether he pay £2 of premium for a bill of £100 payable in Paris, or incur an expense of £2 by remitting £100 worth of bullion directly to that city. If the prices of cloth in Paris and London be such that it would require £103 to purchase and send as much cloth to Paris as would sell for £100, he would undoubtedly prefer buying a bill or exporting bullion. But if, by incurring an expense of £101, the debtor be able to send as much hardware to Paris as would sell for £100, he would as certainly prefer paying his debt by an exportation of hardware. By doing so, he saves one per cent more than if he bought a foreign bill or remitted bullion, and two per cent more than if he exported cloth."

Bills of exchange, or the transfer of debts, may take the place of money to an almost incalculable extent. The instances thus far adduced relate only to *foreign* bills of exchange, or the adjustment of our trade with other countries. But *domestic* bills of exchange are also drawn to vast amounts, to represent and balance the items in our account current with the other States and cities of this Union; they are not, indeed, always called by this name; they generally appear under the form and appellation of *drafts* and *checks*. But they all amount to the same thing; they are really *bills of exchange*, because they are written orders for the transfer or sale of debts. They are distinguished from paper currency, properly so called, or from bank-bills, by this single circumstance, — that a proper bill of exchange, draft, or check, must usually be indorsed by each party through whose hands it passes, and every person who indorses it incurs a modified responsibility for its payment; while bank-bills, as we all know, pass from hand to hand without any indorsement.

And this leads us at once to an explanation of the true nature of a bank-bill; like a bill of exchange, it is simply evidence of a debt, which debt is transferred from hand to hand, or exchanged for merchandise. The bank which pays out one of its own bills simply acknowledges that it is indebted for a specified amount to the person who receives it, or to any other person to whom he may transfer it; and it promises to pay this debt on demand in specie. If the circulation of bank-bills in this country should be entirely stopped by law, the number and value of bills of exchange and other evidences of debt (less convenient, indeed, than bank-bills, because they require indorsement) would be so largely increased, as to prevent the necessity of importing a much larger amount of specie. In England, where the circulation of bank-bills of a lower denomination than five pounds sterling, or twenty-five dollars, is prohibited, numerously indorsed bills of exchange formerly circulated to an immense amount as currency. They were drawn to as small an amount as ten pounds sterling, were used by the country farmers in making their purchases of merchandise, and often came into the hands of the person in London by whom they were finally payable, with no less than forty indorsements upon them.

And it is a curious circumstance, that these domestic bills of exchange are finally paid off, or cancelled, without occasioning the transfer of more than an insignificant fraction of money. They are made payable by some one of the numerous banking-houses in London, and when they approach maturity, they are paid into, or left to be collected by, some other banking-house. "But the convenience of business," says Mr. Mill, "has given birth to an arrangement which makes all the banking-houses of the city of London, for certain purposes, virtually one establishment. A banker does not send the checks and bills which are paid into his banking-house to the banks on which they are drawn, and demand money for them. There is a building called the Clearing-House, to which every city banker sends, each afternoon, all the checks and bills on other bankers which he has received during the day, and they are there exchanged for the checks on him which have come into the hands of other bankers, the balances only being paid in money. By this contrivance, all the business transactions of the city of London during that day,

and a vast amount besides of country transactions, represented by bills which country bankers have drawn upon their London correspondents," — amounting in the daily aggregate to nearly 15 millions of dollars, — "are liquidated by payments of money not exceeding on the average one million." The process is so convenient, and saves the handling of so much money, that Clearing-Houses have recently been established in the cities of New York and Boston, where the various banks effect their settlements with each other by exchanging bank-bills as well as checks, and paying off only the balances in cash. In one day (March. 20, 1857) at the New York Clearing-House, bills and checks to the amount of 40 millions were liquidated by the payment in specie of less than 1½ millions. Even the specie balance is now paid only in certificates that the coin has been deposited in some bank or in the United States Treasury.

As the territory of the United States is very extensive, and different portions of it have their peculiar staple products, the dealings of our merchants in drafts or domestic bills of exchange are necessarily very heavy. The extent of the transactions in these bills must be proportioned to the number and value of the commodities which are interchanged. The South furnishes cotton, rice, sugar, and tobacco for consumption at the North, and for export to foreign countries; and she needs in return the manufactured goods of the North, and the foreign commodities which are imported chiefly into the Northern ports. The West sends to the Atlantic States her surplus product of breadstuffs, beef, pork, hemp, and lead, and also receives manufactured and foreign goods in exchange. It is easy to see that this immense internal traffic takes place in great part without the intervention of money, whether in the form of coin or bank-bills. Drafts or domestic bills of exchange are here the great instruments of commerce, or the circulating medium that facilitates the interchange of commodities. The farmer in Illinois or Michigan forwards by railroad his wheat and Indian corn to a miller at Rochester or a merchant in New York, and *draws* upon him for the value of the consignment at current prices. This draft he transfers to his neighbor, a Western merchant, in payment for articles of household use and other commodities, with which he has been supplied throughout the year; and the merchant, when

he goes to New York to purchase a fresh stock of foreign and manufactured goods, gives up this draft to pay for them. The whole series of transactions, representing all the complex interchanges of commodities between the East and the West, might be completed without the intervention of a bank-bill or a piece of coin in any part of the business, except perhaps to "make change," or settle a fractional part of an account.

The business of the Southern planter is managed nearly in the same way: though the larger part of his produce is shipped to a foreign market, the transaction is settled for him by a draft on a merchant in New York or New Orleans; and this draft, after its acceptance, can be directly used in the purchase of commodities. It usually commands a small premium, or is worth more than cash; for the currency of the neighborhood, being supplied by local banks, is not available for purchases at a distance, and the transportation of specie is burdensome and expensive. A draft is really the safest and most convenient form of money; for as it is indorsed over from one person to another, the danger of its value being lost or stolen is entirely obviated. In this commerce of the different States and other portions of the country with each other, as in international trade, commodities are really purchased with commodities, and the amount of sales must, in the long run, equal the amount of purchases; otherwise, the course of exchange would turn against the State or district which bought more than it sold, and the deficiency would have to be made up first by a remittance in specie, and afterwards by diminishing purchases and increasing sales.

It will be observed that I have thus far hardly entered into any consideration of proper bank currency or of bank deposits, viewed as substitutes for gold and silver coin; this topic, from its extent and importance, must be reserved for another chapter. Yet we have seen that the largest operations of domestic and foreign trade are carried on with the intervention of very little money; that the most important exchanges are effected without any transfer of the precious metals; and we have already abundant reason to believe that, in these modern times, the proper sphere of money is in retail transactions, and in answering frequent petty demands. We thus gain a more correct idea of the comparatively limited functions of money, which common

persons are led grossly to exaggerate, merely because, at any one time and place, it is a common measure of value and a universal denomination of account. All wealth, all commodities, are estimated in dollars, francs, pounds sterling, and the like; and it is by the aid of such estimates that all exchanges are made. Thus, the *idea* of money aids us, when the *reality* is seldom employed. As pounds sterling were a universal denomination of account for a long period, during which there was no such coin as a pound sterling in existence, so the idea, or abstract conception, of numerical values expressed in coin would be a convenient, even an essential, implement or contrivance in mercantile transactions, though all exchanges should be made by direct barter of one commodity for another. Without such a contrivance, the merchant could not keep his books of record intelligibly, or preserve his accounts with individuals in his large and complicated business. Money is even now only a hypothetical or abstract medium of exchange in all the larger transactions of commerce.

We can do without money, therefore, *as a medium of exchange*, and can even barter commodities for other commodities without the use of any medium. But we cannot do without money *as a common standard, or measure, of value.* A measure must be homogeneous with the thing measured; as that which measures length or capacity must itself possess length or capacity, so that which measures value must have value in itself, or intrinsic value. But a bank-note or a bill of exchange has no value in itself; intrinsically it is worthless. It is a mere representative of value; *how much* value it thus represents must have been determined antecedently by reference to some real unit or standard of measurement. By the general consent of nations, gold and silver, one or both, have been adopted as this common measure or standard, and nothing else will be universally accepted as such. All commerce, all credit, is built upon this conventional arrangement; neither can exist without an accurate determination of the values involved, and such determination is possible only by reference to a common standard. Any one nation, it is true, may do what the United States have done for the last ten years; it may discard the common or universally recognized standard, and adopt an arbitrary one of its own. In all internal transactions, it may use

the paper dollar as a substitute for the gold or silver dollar. But it cannot compel foreigners to accept this arbitrary standard, which, in truth, is no standard at all, because its value is subject to serious and frequently recurrent changes. In all its dealings with other nations, it must recognize the common measure, — the number of grains of pure gold or pure silver that constitute the dollar, the pound sterling, the franc, or the florin. Hence there can be no substitute for coined money in another of its offices, — the final determination and payment of the balance that is struck of the long account current of trade with any other nation taken singly, or with all the nations of the earth taken together. Foreign remittances must be of actual, and not merely conventional, values; they must consist either of commodities or of specie.

It is now generally admitted that a great revolution is taking place in the commercial and monetary world, caused by a considerable decline in the value of the two precious metals, — a revolution such as has not occurred for two centuries, and of which there is but one parallel in history. Silver and gold, after maintaining a nearly uniform value for a very long period, are now, owing to the increased quantity of them annually obtained from the mines, changing not only their relation to each other, but their value as compared with that of all other commodities. This change is not to be a merely nominal one. It might seem, indeed, that, as the precious metals are a universal measure of value, any depreciation of them would cause only a general rise of prices, all commodities being affected in the same ratio, so that their relation to each other would remain unaltered. This is true; such a change would not benefit or injure any one. But all stipulations for the payment of money at a future day will be really affected to the full extent of the change which the precious metals may undergo while the contract is outstanding. A revolution which will considerably lessen the burdensomeness of all public and private debts, but which will injure creditors as much as it will benefit debtors, may well be deemed a momentous one.

The first points to be considered are, the probable extent of the depreciation, and the time within which it may be expected. Let us first consider the effect produced in Europe by the great supplies obtained from the American mines in the sixteenth and seventeenth centuries.

We do not need to know the whole amount of gold and silver actually in use in the world, either as coin or plate, before the discovery of America. It is a well-ascertained principle, that the permanent or average value of a commodity depends, not on the larger or smaller stock of it already in being, but on the average Cost of its Production. If a pound of iron is worth only one-thousandth part as much as a pound of silver, it is not because there are a thousand times as much iron now in use as silver, but because it requires a thousand times as much labor to raise an additional pound of silver from the mines as it does a pound of iron. If the stock already in use be ever so large, the value of it cannot *permanently* fall below the Cost of Production; for as the labor of obtaining more would not be remunerated, no more would be produced; and the constant consumption would steadily diminish the stock, till the value of what remained would rise high enough to pay the laborer for the effort of procuring a fresh supply. On the other hand, if the stock is ever so small, no one will pay more for any portion of it than it would cost him to raise or manufacture the article for himself. The steady average value, then, the point about which the Price oscillates, never departing from it far in either direction, is the Cost of Production; and so long as the demand remains the same, this Cost will be nearly in inverse ratio to the quantity annually produced.

Down to the time of Columbus, the average annual supply of the two precious metals certainly did not exceed three millions of dollars. How much was this increased by the supplies from America during the sixteenth and seventeenth centuries? Humboldt is here the only authority generally relied upon; and he tells us that the annual supplies of the precious metals obtained from America were as follows.

America discovered in 1492.	Dollars a year on an average.
From 1492 to 1500	250,000
" 1500 to 1545	3,000,000
" 1545 to 1600	11,000,000
" 1600 to 1700	16,000,000
" 1700 to 1750	22,500,000
" 1750 to 1803	35,300,000

Hence it appears, if we suppose the Old World continued to furnish as much as before, that, before 1550, the supplies from America had doubled the annual product. Before 1600, they

rendered it nearly five times as large. In the seventeenth century, it became over six times, and in the eighteenth over eleven times, larger than it was before 1500. The great increase in the latter half of the sixteenth century was owing to the discovery of the mines of Potosi, which were first systematically worked in 1545.

How great and how rapid a depreciation of the value of money was caused by this vast increase of the supply? Here, again, the means for forming an opinion are imperfect, being chiefly an extensive and laborious comparison of the prices, at different periods, of certain leading commodities, which are in uniform and perpetual demand. The staple articles of food, such as grain and meat, are the best for this purpose, as it may be presumed that they are not often produced in larger quantities than are wanted, and as nearly the same amount of labor is required for the production of a given quantity of them in one century as in another. If a genuine record can be obtained of the prices actually paid, at one place, for such articles, for a long series of years, the variations, if any, in the value of the precious metals during those years, may be deduced from it; allowance being made, of course, for any alterations of the quantity of pure metal passing under the same denomination of coin, and for the state of the coinage, whether worn and clipped or fresh and perfect. Such a record is found in the accounts of Eton College, and in the lists of prices collected by Bishop Fleetwood and M. Dupré de St. Maur. The conclusions deduced by various writers from these accounts do not agree very well; but the variations do not materially affect the result for the purpose which we now have in view. We select the computations made by Adam Smith, as they were made with great care and knowledge of the subject, and have been generally accepted by later writers.

Adam Smith says the American mines do not seem to have produced any effect upon prices till after 1570, though the mines of Potosi had then been actively worked for a quarter of a century. Between 1595 and 1620, silver fell to about one third of its former value; and about 1636, it had fallen to one fourth part of that value, where it has remained with little variation almost to the present day. Before 1570, a quarter (eight bushels) of wheat of middle quality was sold in England, on an average of

a long period of years, for about *two* ounces of pure silver; about 1600, (still taking an average of many years, so that the very good and very bad crops may offset each other,) the price had advanced to a little over *six* ounces; about 1636, it had risen to nearly *eight* ounces. The average value of a quarter of wheat in England, from the repeal of the Corn Laws up to 1852, did not vary much from forty-three shillings, which contain almost exactly eight ounces of pure silver.

Comparing these results with the table already given of the annual product of the precious metals, we find, — 1. *That doubling the annual product of money for half a century had no effect on its value, or did not raise prices at all;* 2. *That making the annual product five times as great had no effect upon its value for* 25 *years, after which time, however, the value gradually fell to one third of what it had been;* 3. *That about* 36 *years after the annual product had become six times as great, the value had fallen to one fourth of its former amount;* 4. *That from* 1636 *to* 1848, *or* 212 *years, the value of the precious metals underwent no material alteration, though meanwhile the annual supply of them had become eleven or twelve times greater than what it had been before the discovery of America.*

These facts satisfactorily support two general conclusions, — 1. That a very considerable increase of the supply may take place without any perceptible change in the value; 2. That the alteration, when it does occur, is very slow and gradual, the variation from one year to another being hardly perceptible.

Let us now see how great have been the changes in the annual supply during the present century. About the year 1800, the annual supply of gold amounted to $ 12,648,000, and of silver to $ 36,289,008; making a total of $ 48,937,008. Soon after 1810, the revolutionary troubles in Spanish America, and the proscription of the old Spanish families to whom the mines chiefly belonged, caused the works in many cases to be abandoned, and there was a great falling off of the product. But after 1834, the gold product of the Russian mines and washings began to swell the amount very rapidly; and in 1847, it had raised the annual supply from all parts of the world to $ 67,000,000, making it nearly one third larger than it had been in 1800.

But what was this to the astounding results produced by the dis-

covery of the Californian and Australian gold washings? The gold obtained in Australia alone, in 1852, was estimated at 330,000 pounds troy; and the supply from California that year is believed to have been 252,000 pounds troy. It has turned out, indeed, that 1852 was far the most productive year, and there was a considerable falling off the next year, especially in Australia. Still, it is safe to estimate the total product of these two countries, in 1854, at 350,000 pounds; and if the supply from Russia and other sources be added, the aggregate for that year is nearly 482,000 pounds, or about $119,536,000. By a curious coincidence, the annual supply of silver from the Mexican and South American mines was largely augmented after 1840, the total for the whole world being one third larger in 1850 than it was five years earlier; the aggregate amount mined in 1850 was nearly $44,000,000. Putting these two sums together, we have the value of gold and silver obtained from the mines in 1854 equal to $163,536,000.

The results now obtained may be put into a tabular form for the purposes of comparison.

	Annual product of the two precious metals.
From 1800 to 1810	$49,000,000
" 1810 to 1836	30,000,000
1847	67,000,000
1854	163,536,000

Unless new gold-fields should be discovered, however, of which there seems little probability at present, it is certain that the maximum supply was obtained in 1852, and that there has since been a very considerable falling off. In 1855, the supply was probably not more than half as great as in 1852. The falling off was even more sudden and marked in Australia than in California. In respect to silver, on the other hand, the supply is steadily but slowly on the increase, the most cautious estimates making the increase at least 2½ per cent a year. The annual product of this metal was estimated in 1856 at very nearly $50,000,000, the chief portion of the increase being from Mexico and Chili. Since 1860, Nevada alone has added 16 millions a year to this sum.

Silver is obtained by mining, and the veins which are worked are sometimes found to grow richer as they are followed into the

bowels of the earth. The expense of working them, indeed, increases as we descend; but the steadily increasing product is often an offset for this enlarged cost. Gold, on the other hand, is generally obtained by washing from a superficial deposit of gravel and sand. It is chiefly found in what the geologists call "the drift," and in a stratum of it of no great thickness. Being thus spread out over a great extent of ground, and lying at or near the surface, almost any number of persons can be engaged in obtaining it without impeding each other's operations. If also, as is the case in California and Australia, the land in the auriferous district is, in the main, open to all comers, as the Great Bank is to all fishermen, then, large as the district may be, it is soon covered with gold-hunters. The most promising localities are quickly exhausted, and every year the labor of gathering the shining dust increases, and the returns diminish. The experience of California is conclusive on this point. The solid rock, though it be tough quartz, in which the gold spangles now found in the drift were originally embedded, is now crushed and ground by heavy machinery, and a supply of auriferous sand and gravel is thus obtained by artificial means, in addition to that which natural agencies have spread out over the surface. We may not anticipate, then, that the gold-bearing districts will ever be *completely* exhausted. Still, two processes must always be more laborious and expensive than one, and the ground will no longer be open to every comer. When the business is all reduced to pounding up primary or metamorphic rocks with machines, and to washing gravel for the second time, it is reasonable to expect, that, although capitalists may get a fair return for their enterprise, the annual supply of gold will not be more than half of what it was in 1854.

Regarding the enlarged supplies of silver from Mexico and Nevada, together with the fact that we have now three great gold-bearing regions to depend upon, so distant from each other as Russia, California, and Australia, it will not be deemed incautious to anticipate that *the annual supply of the two precious metals will not fall below a hundred and twenty millions of dollars for many years; and that, before* 1900, *this supply will depreciate money to one half of what was its value before* 1850.

In respect to the relative amounts by weight of the two pre-

cious metals, it appears from the statistics already given, that, at the beginning of the present century, the annual product of gold was to that of silver as 1 to 43. The following table exhibits in one view the sudden changes to which the relative quantities of the two metals have been subjected, the figures indicating the weight in pounds troy.

	1800.	1845.	1852.	1854.
Silver	2,337,300	2,183,500	2,958,296	3,106,210
Gold	54,000	129,250	717,950	482,000
Ratio	1 to 43	1 to 17	1 to 4	1 to 6¼

In the sixteenth and seventeenth centuries, while the Mexican and South American mines were pouring out their treasures of silver, gold rose from a comparative value only ten times as great as that of silver to that which it had in 1848, of nearly 16 to 1. In 1854, then, it appeared reasonable to believe that the sudden and great increase in the annual product of gold, the annual product of silver being then supposed to be nearly stationary, would carry back the relative value of the two metals to its former point of 10 to 1, and perhaps lower still. It was even thought that the rise in the comparative value of silver would be a tolerably exact measure of the depreciation of gold. Acting under this expectation, the government of Holland demonetized gold, and made silver the standard of value, thinking thereby to avoid the threatened decline in the value of money. But as the annual supply of gold rapidly fell off, while that of silver steadily increased, it appears probable that the relative value of the two will not be much affected, while there will be a regular progressive diminution in the value of both.

Very good reasons have been given why the discovery of the American mines, in the sixteenth century, and the influx into the market of eleven times as much of the precious metals as before, did not reduce them to one eleventh, but only to one fourth, of their former value; and why, when the ratio of the quantity of silver to that of gold was as 45 to 1, the ratio of their values was only as 1 to 15. As already observed, in commerce and the arts, chiefly on account of its inferior cost, silver has been far more generally in use than gold. It has supplied much the larger portion of the currency of all nations. With some nations of the East, — the Chinese, for instance, — gold is hardly used at

all for this purpose. Silver must always be used for the smaller pieces of money, at least until gold has fallen much below its present value. Our gold one-dollar piece is inconveniently small, and will not probably come into general circulation.

The general principle is, that the value of money falls in precisely the same ratio in which its quantity is increased. If the whole money in circulation should be doubled, prices would be doubled; if it was only increased one fourth, prices would rise one fourth. The principle, however, holds good only under the supposition that the quantity of commodities, the number of exchanges, and the number of people having occasion to effect exchanges, remain unaltered. Otherwise, if there be an increase in either of these respects, the quantity of money being unchanged, the value of that money will rise; or if money is increasing, the increase in these other respects may neutralize, wholly or in part, the depreciation of that money. This was the case after the discovery of America. There was an immense enlargement of commerce and manufactures at that period, and a great improvement in the modes of living. The discovery of America itself, and of the passage round the Cape of Good Hope, and the colonization of the West by Europeans, greatly enlarged the demand for money. Before 1500, vastly the larger portion of the people were engaged in agriculture; they raised most of the articles which they needed by their own labor, and obtained many others by direct barter. Afterwards, many were diverted into commercial and manufacturing pursuits, and the consequent Division of Labor greatly increased the number of proper mercantile exchanges. The middle classes now first came into notice as a distinct power in the state. As wealth advanced, luxury grew apace. The actual consumption of the precious metals, by abrasion of the coin, the wear of plate, lace, and trinkets, by plating and gilding, and by losses through shipwreck or fire, became considerable.

It is easy to perceive why, under such circumstances, the supply having become eleven times as great, the value fell only to one fourth of what it had been. On the other hand, why the value did not advance again from 1750 to 1830, when the supply was nearly stationary, though commerce, wealth, and luxury were still rapidly increasing, is a point which requires explanation. But as

society advances, means are discovered for economizing the use of money. The vast extension of credit; the establishment of banks, and especially of Savings' Banks, which bring together and keep in active use a vast number of small sums, which would otherwise be hoarded or lie dormant in the hands of individuals; the circulation of bank-notes, checks, and bills of exchange, which perform nearly all the functions of money; and, more than all, the introduction of accounts current among traders, by which purchases are set off against sales, and commodities are thus virtually bartered for commodities, money being needed only at the final settlement, and then only to a trifling amount, — all, as we have seen, are expedients for completing exchanges without the actual transfer of coin. Only the rapidly extended use of these expedients could have prevented a considerable rise in the value of money, and consequent fall of prices, during the period when the annual supply of the precious metals was nearly stationary, and the operations of commerce greatly enlarged.

Is it probable that the effect of the present vastly increased supply of the precious metals will be, to any considerable extent, retarded or neutralized by an increased demand for money, through the growth of luxury and trade? We see no circumstances likely to produce this result, except the colonization of the gold-bearing regions themselves; and even this can have comparatively little influence. For some years, at least, California and Australia must use chiefly a hard-money currency, while large amounts of bullion, as I have already remarked, will be *in transitu*, — wandering about, as it were, from one country to another, to find where they will be of most value, — before they pass into active circulation as currency. But these circumstances can impede the result only for a few years; they cannot materially lessen or weaken it. Perfect as the machinery of trade now is, and perfectly as it is understood, no country which is colonized by commercial nations can remain far behind the mother land in the use of money-saving expedients. In respect also to the use of the precious metals for articles of luxury and ostentation, M. Chevalier finds reason to believe that it is rather diminishing than increasing. The official returns, both in England and France, show that there was a larger manufacture of gold and silver plate

in those countries before 1830 than there ever has been since. "The luxury of our days," says Chevalier, "has democratic features; it is very calculating and economical. It is lavish of gilding and silvering, but requires few massive articles in silver, and still fewer in gold." It seems most probable, then, that the general principle will hold, that the value of money will fall in the same ratio in which the average annual supply of it is increased.

We come, then, to the main question, — Is there anything in the prospect of a great decline in the value of money to create serious uneasiness and alarm? We suppose that the decline will be gradual, that it will be spread over many years, that at least half a century must elapse before it can be completed. There will be a rise in the prices of all commodities, with a corresponding increase in wages and salaries. Labor will be higher paid, both because the articles it produces will have a greater nominal value, and because the cost of living will be greater, so that, if wages and salaries did not rise, the labor could not be had. The rise of prices, being general, will consequently be only nominal; that is, one commodity may be bartered for another on just the same terms as before. If, when flour is five dollars a barrel, it takes five barrels of flour to buy one coat, after money has fallen to one half of its value, the coat can still be had for five barrels of flour; but it will then be said to be worth fifty dollars, and the flour to be ten dollars a barrel, instead of five. In this narrow view of the subject, therefore, or so far as this effect extends, no one will be directly benefited, and no one directly injured.

With respect to outstanding obligations, or contracts to deliver money at a future day, the case will be different. If I borrow one hundred dollars at a time when that sum will purchase twenty barrels of flour, or an equivalent amount of other commodities, and am not called upon to repay it till money has so far fallen in value that the sum will buy only ten barrels, the debt is really cancelled by returning only one half of the value which was borrowed. To this extent, therefore, every one will be benefited so far as he owes money, and will be injured so far as he has money to receive. But in either case, he will be affected only by the amount of the depreciation which takes place in the interval between the contraction of the debt and its payment. If fifty years

elapse before the depreciation is completed, and if it take place uniformly, or at the rate only of one or two per cent a year, then all promises to pay which have not more than a year to run will be affected to the extent only of one or two per cent. But, in the ordinary course of business, vastly the larger number of contracts are completed within the year; they will not be so much affected by the general decline in the value of money as they often have been by common fluctuations in the rate of interest, and by changes in the price of particular commodities. Money is often borrowed by merchants when the current rate of interest does not exceed five per cent a year, and the time of repaying it has come when it could with difficulty be had at one per cent a month. We may say generally, then, that the common transactions of business will not be sensibly affected by the great change which is in prospect.

But all fixed money payments having many years to run will be seriously affected by the coming alteration; that portion of them which extend over half a century will experience the full effect of it. All government stocks, and other stocks yielding a fixed rate of interest, and not bearing any obligation to be paid off in a few years; all bank-stock, and other permanent investments of money yielding income only under the form of interest; and all property let on long leases at a fixed annual rent must decline in value with the money which they represent. Such stocks, and the property also, if the lease be a perpetual one, when the depreciation is complete, will possess only half their present *relative* value. The nominal income yielded by them will remain the same, but it will only purchase half as many commodities as before. There will be no actual loss to the community, for what one loses another gains. The tax-payers, for instance, will gain just as much as the holders of stock in the national debt will lose. As the depreciation goes on, taxation may be extended *pari passu*, without throwing any additional burden upon the community; and a sinking-fund, formed out of the surplus thus obtained, would pay off the national debt in less than one generation. As such stocks, moreover, are transferable, and frequently pass from hand to hand, the total loss upon any portion of them will seldom fall on one person; it will be divided among many, and thus be distributed among the wealthier portion of the community, who, profiting in their capacity as tax-payers by the depreciation which occasions this loss, will have

no great reason to complain. Life-annuitants, persons who have insured their lives, mortgagees on long periods, and those who have let property on permanent or long leases, will be almost the only class compelled to bear the loss without any direct compensation or means of escape. The funds of public institutions and of individuals which exist in the form of floating capital, or what is usually called "money at interest," will, of course, suffer the full effect of the depreciation; but, as the ownership of real estate is commonly connected with the possession of such funds, and as the value of real estate will rise even in a higher ratio than the prices of commodities, owing to the general eagerness to secure the only form of permanent investment which will not be affected by the decline in the value of money, the loss in this case will not generally be without compensation.

The rates of interest cannot be directly altered by the change. If gold sinks to half of its present value, the $100 of principal, and the $6 of annual interest for it, will be affected in precisely the same ratio; both sums will purchase but half as much of any given commodity as can now be obtained for them. Being affected in the same manner, and to the same degree, their relation to each other will remain unaltered. Indirectly, however, a very gradual decline in the value of money will produce a slight diminution in the rates of interest. The great addition to the stock of the precious metals will appear, at first, in the form of floating capital seeking investment; it will swell the specie reserves of the banks, making them eager to extend the circulation of their notes. Thus, until the prices of commodities begin to be sensibly affected, there will be more lenders than borrowers, and money will be offered at a lower interest. It was so in 1852. In consequence of the influx of gold, the specie reserves of the banks were distended to repletion. The Bank of England had the enormous sum of twenty-two millions sterling in its vaults, or nearly 110 millions of dollars. It consequently reduced the rate of interest, first to 2½ and then to 2 per cent a year, — the lowest rate at which it had ever discounted bills.

As the spirit of speculation has usually been rife when but slight temptation was offered, it may seem strange that it should have shown itself so dull when there was a moral certainty that there would soon be a general rise of prices. But the prospect of a gen-

eral and gradual rise of prices does not tempt men into hazardous enterprises so much as the chance of a sudden and great enhancement of the price of one commodity. The report of a war with China may double or triple the price of tea in a month; or a rumor of the potato-rot and a failure of the crops in England may create a fever almost at once in the flour-market here in America. But a gradual enhancement in the money value of all commodities does not quickly induce people to purchase largely on borrowed capital. There may be brief and violent fluctuations in the relative value of particular commodities, while the great movement is silently going on which slowly enhances the value of all. It is conceivable, and even probable, that one effect of the abundance of capital seeking investment, and the consequent diminution of the rate of interest, will be to lower the prices of many commodities, instead of raising them, because these circumstances aid and stimulate production. More cotton will be spun, because it will be more easy to obtain capital wherewith to build manufactories and keep them in operation.

Still, the loan of capital could not be so generally offered at very low rates of interest without producing, sooner or later, its proper result, — a disposition to speculate and a general inflation of prices. This effect began to be manifest towards the close of 1852, and became very conspicuous the following years. Commodities generally rose in price, to the extent, on an average, probably of 15 or 20 per cent beyond what was obtained for them in 1850; and in the case of breadstuffs and some other articles of provision, a partial failure of the crops in Europe in 1854 made the enhancement of price much greater. As a necessary consequence of the increased cost of living which was thus produced, there was a general rise of wages and salaries, amounting to at least 10 per cent. These results were attended by considerable speculation, since loans could be easily obtained, and there is always a strong temptation to buy on a rising market. A reaction followed in the United States in 1857, which soon extended to England, France, and Germany. Many persons had traded beyond their means, and therefore found great difficulty in meeting their engagements. The rate of interest rose to its highest point, and loans were difficult to be had on any terms. In short, there were all the features of a commercial crisis, except a fall of prices, which was prevented by the steady

influx of gold, diminished in amount, it is true, but still sufficient to maintain prices and wages at the elevation which they had reached. It became manifest, then, that this was a permanent elevation; having withstood a general pressure in the loan-market, which continued for an unusual period and with extraordinary severity, there is no reason to believe that it will give way now that ease and prosperity have returned. No one expects prices to return to the level at which they were in 1850; money was depreciated in value, during the next ten years, about fifteen per cent.

Professor W. S. Jevons attempted to ascertain how much money has recently declined in value by comparing the average prices in the London market of 39 chief commodities during the six years 1845–50 with their average prices from 1860 to 1863. The commodities were well selected for this purpose, as they comprised all kinds of grain and the leading products of agriculture; such fibrous materials as wool, silk, flax, and cotton (before the war of the Rebellion had affected its value); the principal metals; and such animal and vegetable products as tallow, hides, and timber. He found that these commodities had, on an average, risen in price 16.2 per cent between the two periods, thus showing a depreciation of gold equal to 14 per cent. He also compared the prices, during the same two periods, of 79 other commodities of less importance, and found that the average of the whole had risen over 10 — thus indicating that gold had depreciated more than 9 — per cent. He also observed, that although the years 1860–62 formed a period of general depression of trade resulting from the great crisis of 1857, prices were far from having fallen to their old level before that crisis. The comparison, therefore, is a fair one, and the conclusion from it is very cautiously stated, that the depreciation of gold, as far back as 1863, must have been at least 9, and very probably reached 15, per cent. As the relative value of the two precious metals has not altered since 1850, we must infer that silver has fallen in value as much as gold. This result was to be expected from the great productiveness of the silver mines in Nevada, first discovered in 1859, which have yielded annually about 16 millions of dollars in that metal for several years.

The experience which we have now had enables us to predict

with some confidence the future course of the depreciation in the value of money. It will not stop here; the continued influx of at least 120 millions of dollars a year from the silver mines and gold deposits must soon raise the prices of commodities another 15 or 20 per cent. As further supplies are received from California and Australia, the specie reserves of the banks will again be distended, the rate of interest will again be reduced, loans and discounts will be freely offered, and, as a necessary consequence of the larger amount of money thus thrown into the market, prices will rise still higher, or, what is the same thing, the value of money will be still further depreciated. That a speculating fever should also ensue, many persons being encouraged by this abundance of money and enhancement of price to make purchases beyond their capital, is a natural, but not a necessary, consequence of this alteration of values. It is evident that the change *might* take place by a steady and gradual process, each annual receipt of the precious metals from the mines operating upon the market to raise prices to an extent almost too slight to be appreciated; if so, there would not be even a fluctuation in the rate of interest to indicate the change which is going on. But it is more probable that the revolution will not be thus uniform in its progress, but that it will advance, so to speak, by hitches and starts, a single year being marked by a considerable rise in prices, which will be followed by two or three years of seeming quiescence, and then another rise will ensue.

One reason why money does not sink in value slowly and uniformly, but by starts, is to be found in the time which is required for equalizing prices throughout the world. After they have risen in the chief commercial countries, such as England, France, and the United States, the effect must be transmitted to the East, to British India and China. The price of opium, tea, silks, and other Eastern products, must also rise, and large amounts of gold and silver will be transmitted to pay for these commodities at their enhanced valuation. The East has always required more metallic currency in proportion to the extent of her commerce than the West, as it has fewer banks and other expedients for economizing the use of money.

One cause, perhaps, why the change in the relative value of the two precious metals has not become more manifest, may be

found in the change which has taken place in the currency of France. The circulation in that country was almost exclusively metallic, as the only bank-bills were of a very high denomination; and, before 1850, it consisted for the most part of silver, gold bearing an *agio* of about seven in a thousand, and therefore not coming into general use. But the influx of gold from Australia and California reversed this state of things. The French mint coined a very large amount of gold during the last five years, which entered rapidly into circulation, displacing an equivalent amount of silver coin, which was melted up and sent abroad. It is estimated, by well-informed French and English writers, that the silver thus set free in France alone amounted to over sixty millions of dollars.

When it was expected that silver would rise in value relatively, just as fast as gold depreciated, the question arose, — and it was a very important one, — how the alteration in the coinage should be made. Should it be by adding to the quantity of gold, or by diminishing the quantity of silver, which now passes for a dollar? If the former course were adopted, the value of money would decline only in proportion to the depreciation of silver, the greater depreciation in the value of gold being obviated by the increased quantity of it which passed under the old denomination. If the latter course were preferred, money would fall in value as rapidly as the worth of gold depreciated. In either case, several successive changes of the mint regulations would be necessary.

The question which we are here considering is not one of mere convenience or expediency; we must also see what abstract justice requires in all dealings between debtors and creditors. Those who were in favor of increasing the quantity of gold, rather than of lessening the quantity of silver, which now passes for a dollar, might argue very plausibly, that a debt ought to be cancelled only by the payment of money equal in value to that in which it was contracted. If I have borrowed one thousand silver dollars, or something which could readily be exchanged for one thousand *silver dollars*, I ought not to be allowed to cancel the debt by paying one thousand *gold dollars*, after gold has fallen to one half of the value which it had when I obtained the loan.

This argument is plausible, but it is insufficient. All mercantile contracts must be construed literally, or must have a specific performance. The law never undertakes to guard either party

against the evil consequences to himself of a change of values which he has not foreseen. Such changes are very frequent in mercantile transactions, and the maxim, *caveat emptor*, applies to them all. If I pay one thousand dollars now for one hundred barrels of flour to be delivered three months hence, and if the price of flour falls meanwhile to eight dollars a barrel, I must not expect that one fifth of the purchase-money will be paid back to me; and if the price, on the other hand, rises to twelve dollars, the seller cannot require me to make up the difference. Each party must bear the consequences of his bargain and of his own want of foresight. In like manner, if a landholder leases an estate for twenty years, at an annual rent of five hundred dollars, he cannot rightfully demand compensation, nor can the lessee ask an abatement, if, in the course of those twenty years, the value of the dollars should be altered by circumstances over which neither party had any control.

According to the state of the law before 1853, when we suppose the lease was made, the annual payment was to be *either* five hundred times 23.22 grains of pure gold, *or* five hundred times 371.25 grains of pure silver. It was a part of the contract, that the lessee should have the option of paying his rent in *either* of these forms, the two metals in these proportions being both legal tender. It is the misfortune of the lessor, but certainly not the fault of the lessee, if, when the rent becomes due, the 23.22 grains of pure gold will no longer purchase so many commodities as before. The latter cannot, therefore, be obliged to pay silver; for he bargained to pay gold, if he saw fit.

Apart from all considerations of expediency, then, it would be an obvious violation of justice, in any country where a double standard exists, to seek, by altering the regulations of the mint, to prevent the present and the expected depreciation in the value of gold from affecting the value of all money to the full extent of such depreciation. In other words, it would be wrong to alter the law on any other principle than that on which it was altered in 1853.

There are some reasons why a decline in the value of money, such as is now taking place, should be regarded as a source of prosperity to this country. As has been mentioned, those countries which have a large national debt are most likely to be bene-

fited by the change. The burden of taxation will be essentially diminished, while the loss sustained by the fund-holders will fall on shoulders that are most capable of bearing it, and will also be distributed among many, and over a long period of years, the frequent changes in the ownership of the stocks, moreover, tending to render their real depreciation almost imperceptible. Our national debt now (1870) exceeds 2,400 millions of dollars, of which about 1,000 millions are due to foreigners. The aggregate indebtedness to foreigners, including National, State, and municipal bonds, railroad and mining bonds and shares, is computed by Mr. Wells to be 1,465 millions. The rate of interest being higher here than in the Old World, European capital has been attracted here in so large quantities, that our annual remittances for interest already constitute no small portion of our exports. We do not call these remittances "a drain upon the resources of the country," as they are often denominated by the unthinking; for the transactions on which they are founded have swelled those resources far beyond the limit which would otherwise have bounded them. Still it is satisfactory to remember, that, as the monetary revolution will operate exclusively to the benefit of the indebted party, our own land will derive as much benefit from it, in proportion to our means, as any country on earth.

CHAPTER XIV.

THE FUNCTIONS OF BANKS AND THE NATURE OF BANK-NOTES: THE OPERATIONS OF CREDIT.

I DO not know any more efficient means of aiding commerce in its great work of supplying the wants of all through the interchange of commodities, and of preventing inequalities and fluctuations of prices, than the establishment of Banks. They accomplish this great good by applying systematized and combined effort to promote and equalize the operations of credit, and thereby to economize the use of capital. Capital is created from the savings of income, through the industry and frugality of the producers. But those who create are not always competent to employ it; and in most cases, it cannot be successfully and economically

employed except when it is accumulated in large masses. Before the institution of Banks, individuals who made savings from income were obliged to put them into the most portable form, (that of gold, money, or jewels,) and lock them up in vaults, hide them in old stockings, or bury them in the ground, where they remained useless, except as provision against a future rainy day. Banks may be best described as contrivances for bringing together these otherwise useless driblets of capital into large masses, and keeping the whole in constant activity, by apportioning them out on loan to those who, for the time, have most need of them and can use them to best advantage.

All enterprises, whether of agriculture, manufacture, or commerce, in order to be prosecuted with any success, require to be aided by capital. This is a sufficiently familiar truth; but the additional truth is often lost sight of, that the capital required in any one enterprise or occupation is not a fixed quantity, but is perpetually varying, changing not only from one season to another, but from month to month, and even from week to week. It cannot always be foreseen how much will be needed at a particular time, until that time is close at hand. Thus the farmer needs advances of capital in the spring and summer, to be repaid, and probably with a surplus left, soon after the crops come in. The ship-builder, the iron-master, the railroad-contractor, need comparatively little at first, but their wants go on rapidly enlarging as their products approach completion; when these are finished and paid for, they have — or rather, without Banks, they would have — large balances unemployed. Almost every merchant, whether he has much or little independent capital, has his separate lists of Notes Receivable and Notes Payable; that is, he is obliged at the same time to be both lender and borrower. If there were not great facilities for credit, ample opportunities both to lend and to borrow, which can be improved even at a day's notice, there would be great waste, — large amounts of capital lying idle all the time, and yet industry and enterprise crippled in at least half of their task by the want of capital.

Banks are institutions to equalize the demand and supply of capital, so distributing it that "he that gathered much had nothing over, and he that gathered little had no lack." They accomplish this result by the use which they make of credit, which

may be defined to be the confidence which one man reposes in another in respect both to his disposition and his ability to return that which he has borrowed, or its equivalent. It is a means of putting capital into the hands of those who, for the time being, can use it to the best advantage, though they are not the owners of it. The whole principle of banking, says Lord Overstone, "is to transfer capital from the inactive accumulator to the active and energetic person who wants capital."

The utility and profits of capital depend upon its activity, upon the speed, skill, and judgment with which it is consumed and reproduced. The capitalist himself may be deficient in all the important requisites for managing his own property; he may have inherited it, and therefore have had no experience in the mode of acquiring and using it; or from the very fact that he is a capitalist, or a man of fortune, he may not be willing to give time and labor to its superintendence, preferring to consult his own ease and amusement; or his capital may be so large, that, although in active business himself, he may not be able to superintend or manage the whole of it, but may feel obliged to lend a large portion of it. From these various circumstances, there is always, in every wealthy community, a vast amount of capital to lend, — much more than is generally supposed. For capitalists, banks, and other lending institutions are commonly thought to *manage* and superintend their own property, when they simply direct its investment, or determine to what persons or institutions they will by preference lend it. But it is not so. The real *manager* of capital is he in whose hands it exists, not in the form of money, stocks, or other securities, but in the form of goods, — whether of raw material to be manufactured, or of tools and machinery for use, or of ships and other means of transport, or of merchandise for transport and sale. There may be half a dozen applications of credit, half a dozen lendings, between the proper *owner* and this *manager* of the capital. For instance, the owner may prefer to lend his capital to, or invest it in, a bank; the bank may lend it to a broker; the broker may employ it in buying up a promissory note; and the original giver or promisor of this note is probably he in whose hands the actual property represented by all these transactions is really placed, for the time being. *He* is the *manager* of the capital, whose true *owner* is not probably known to him even by name.

It ought to be remarked that credit, however enlarged, cannot increase capital, — cannot *create* wealth; it can only transfer from one hand to another the wealth already in being. "Credit has a great, but not, as many people seem to suppose, a magical power; it cannot make something out of nothing. If the borrower's means of production and of employing labor are increased by the credit given him, the lender's are as much diminished." It is true that the debt is still a portion of the lender's property; and though not immediately available as such, because it is a debt not yet due, it may be used as security on which an equivalent sum may be borrowed from a third party. Still, no capital is *created;* only B has made over a certain amount of capital to A, and C has transferred an equal amount to B. Credit can never assign to one without subtracting from another.

A Bank is a reservoir which collects in amounts available for use the rain-drops which would otherwise be lost by dispersion; and it brings borrowers and lenders together, knowing that their respective wants can be supplied by concert and previous arrangement. The two legitimate sources from which the bank can make loans are its Capital and its Deposits. The former is, on the part of the stockholders, a *permanent* loan, its owners not expecting to receive it again for many years, except by means of selling their stock to other persons, or by obtaining a temporary use of it as a loan, pledging this stock as security. The Deposits, on the other hand, are a *temporary* loan in the narrowest sense of the term, being lodged in the Bank only while the owners have no use for their funds, and being liable to be drawn out by them at any moment without notice. As already explained, merchants and manufacturers, and even many individuals not now engaged in business, must have considerable surplus funds on hand to meet the constantly varying demands against them, which cannot always be foreseen. But these surplus funds need not be so large as they otherwise would necessarily be, if they have an arrangement with a Bank, whereby, in consideration of depositing with it this surplus when they have no occasion for it themselves, they shall be entitled to obtain loans from it to a corresponding, or even greater, amount, when a time comes for them to make large payments. It is even a convenience for them to make such deposits, though they did not look forward to some future accom-

modation in return; inasmuch as they thereby avoid the risk of fire and burglars if the money were in their own keeping; and it is more convenient to make any payment by a check than by counting out the money. This method also obviates the trouble of paying fractional parts of the sum in coin.

But the question will be asked, — How can the Bank safely make any use of the sums thus deposited, seeing that any number of them are liable to be withdrawn at any moment? The answer is easy. The Bank could not safely use the capital if it had *but one* depositor; but having *many*, — hundreds, perhaps, — it can safely employ the whole *average* amount of the Deposits in discounting notes for its own profit; as experience shows that their average amount continues with little fluctuation, the daily withdrawals by one set being constantly made up by fresh deposits from another set. The demands for money vary so much with different persons, and in different employments, that while A, B, and C are drawing down their deposits to little or nothing, X, Y, and Z are increasing theirs at least to an equivalent extent. Taking the official weekly returns for all the Banks in the city of New York for 1856, I find their average amount for the whole year to have been about 64 millions of dollars; that, in any two successive weeks, this average never varied over *three* millions, or less than 1½ per cent; and in any two successive months the variation did not exceed five millions, or less than 2½ per cent. Observe, then, the prodigious economy in the use of money effected by this single function of the Banks. Were it not for their agency, this average sum of 64 millions of dollars, or 98½ per cent of it, would necessarily remain unused, in the pockets or safes of one set of merchants or another, from the beginning to the end of the year; any one who did not thus keep idle his proportional part of it would subject himself to the peril of bankruptcy at any moment. Since the adoption of Paper Money as the currency of this country, the aggregate of deposits in all the National Banks has come to exceed 600 millions, one third of this sum being in the Banks of the city of New York. Interest on this amount at 6 per cent, or 36 millions of dollars, is the annual advantage from this action of the Banks in economizing the use of money.

Hitherto I have spoken as if the whole amount of the Deposits

in any Bank were in a state of perpetual movement, — passing out, so to speak, of one door of the Bank, but immediately coming back through another, — being drawn down by one set of depositors and forthwith replaced by another. But it is important to observe that nearly this whole movement of the Deposits, *so far as the depositors are concerned*, is fictitious or imaginary; that the Deposits do their office for their respective owners, effecting all, or nearly all, their payments, without being removed by them from the Bank at all, simply by a few entries on the Bank-books, whereby, without being touched, they are transferred from the credit of one person to that of another. Here we have the explanation of the curious historical fact, that all the heavy payments made by merchants and dealers in the great commercial city of Amsterdam, for half a century, were made through a supposed deposit, which had entirely disappeared probably some fifty years before its removal was detected. This assertion, seemingly extravagant, is at once rendered credible and easy to be understood by a moment's reflection, which satisfies us that the 200 millions now supposed to be deposited in the New York city Banks never existed there at any one time, — not even the fifth part of them; but that over four fifths of the Deposits are constantly lent out by the Banks to their several customers. It is well known, that, if a quarter part of the depositors should come at the same time to the Bank to demand and actually carry off their funds, the institution would be directly obliged to stop payment; its funds actually on hand could not satisfy one fifth of the claimants. In the panic of 1857, the New York depositors, either in their fright or to teach the Banks a lesson, did withdraw, not in one day, but in the course of the first two weeks of October, ten millions, or one sixth of what was then the aggregate of the Deposits; and the immediate consequence was, that every Bank in the city stopped payment.

But how can the depositors have the free use of their funds on demand, and without notice, and yet never carry them away from the Bank? Because they never need to use them except to pay or to lend; and, in either case, the creditor or the borrower is also a depositor at the Bank or at some other Bank. The circulation of the Deposits is just as free as that of the Bank-bills; only the former complete their circuit without ever going out of doors, or

changing hands in any other sense than by a transfer on the Bank-books from the credit of one person to that of another. Strange as it may seem, this *circulation of the Deposits* was never explained, or in any way taken notice of, either in books or in any discussions upon the currency, till a few years ago; but it seemed universally to be believed, that no payments could take place except by an actual transfer of specie, or some form of currency, from one hand to another; and hence that no increase of trade could take place except through a corresponding augmentation of the currency. But except in the petty transactions of every-day life, in which small purchases and small debts are certainly settled by the delivery of coin or Bank-bills, the real medium of payment between commercial men in the same city, — and even, to a great extent, in different cities, though they are on opposite sides of the ocean, — the real medium of payment, I say, is the transfer of Deposits, — nay, even of *imaginary* Deposits, inasmuch as the funds transferred on the books notoriously are not present in the Banking-house on whose books the transfer is accomplished.

Suppose by procuring a discount, or having notes at maturity paid in to his order, that a merchant, A, has $20;000 standing to his credit as a Deposit. His notes to B and C for $10,000 each becoming due, he orders a transfer, through his checks, of this sum to their credit, thereby cancelling his own obligations. The deposit now stands credited to B and C; and in their turn, having notes to pay, they order its transfer to D and E. In this manner, successive transfers of this one sum of $20,000 on deposit may, in the course of a week, cancel indebtedness to the amount of a quarter of a million; for at different hours of the same banking day, A may transfer it to B, B to C, and C to D; though in ordinary times, certainly, the transfer is not quite so rapid. All this practically takes place without the exchange of a dollar *in money*, whether of specie or paper; and as the average total Deposit in our Boston Banks alone is over forty millions, the mere shifting of the credit for this sum on the Bank-books may, and does, wipe out two or three hundred millions of indebtedness every week. The relative amount of the Bank circulation, or of the specie reserve, has nothing to do with this result, any more than it has with the position of the planets; for the whole process might go on undisturbed, if there were not a specie dollar or a paper dollar in existence.

The little complication that is caused by different merchants keeping their deposit accounts at different Banks in the same city is easily resolved. A, from the Merchants' Bank, pays his note for $10,000 to B at the Traders' Bank, by transferring that sum in Bank-bills from the former institution to the latter, A's deposit account being debited, and B's credited, to that amount. Then — on the same day, perhaps — C, from the Traders', pays his note for $10,000 to D, at the Merchants', corresponding changes of credit being made. Each of the two Banks now holds $10,000 in bills of the other. At the Clearing-House, on the same day, the two Banks swap back these parcels of each other's bills which they have received, and the transaction is squared all round. If any one thinks that the Bank-bills, *in their specific character as Bank-bills*, have any effect on the nature of the transaction, he may learn his mistake by referring to the practice in the city of New York, where frequently the checks are not paid in Bank-bills, but are merely certified as "good" by the teller of the Bank on which they are drawn; thus certified, they are paid in *as money* at another Bank; and then, at the Clearing-House, the Banks swap checks instead of Bank-bills.

And here we have another proof how unfounded was the opinion held by successive Secretaries of the Treasury and many others, and which unfortunately governed our whole financial policy during the Great Rebellion, that the *want of money* was the source of all our financial difficulties, and that to issue more currency, whether as legal-tender notes, popularly called "greenbacks," or National Bank-bills, was the only way to "*float*" the heavy loans which were required, and to handle our national receipts and expenditures on the gigantic scale to which they had risen. In December, 1862, when over 222 millions of "greenbacks" had already been issued, in addition to 167 millions of State Bank-bills still in circulation, and when gold, although there was a superabundance of it then hoarded in the country, had risen to a premium of over 38 per cent, so that a dollar in currency was worth only 72 cents in coin, Secretary Chase argued that "the government *can* resort to borrowing only when the issue has become sufficiently large to warrant a just expectation that loans of the notes [greenbacks] can be had from those who hold or can obtain them"; and he alleged that the takers of a recent loan of thirteen millions had found it difficult to obtain

"greenbacks" with which to meet their engagements to the Treasury. I answer, that the government needed to borrow only in order to pay contractors and the army; and that ten times thirteen millions might have been obtained for that purpose, in a single day, in the city of New York alone, merely by transferring Deposits, without the use either of a gold or a paper dollar. A number of merchants and capitalists, by selling stocks or other property, could easily have 130 millions transferred to their credit in the Banks in one day. Then they could honor the checks of the Treasurer of the United States, by transferring this sum to the credit of a little crowd of contractors, who had furnished provisions, uniforms, arms, gunboats, and the like, to our army and navy. On the next day, the contractors would probably transfer a considerable portion of this sum to the capitalists who had advanced funds to enable them to fulfil their contracts; and thus a portion of the Deposits, without even leaving the Bank, might find their way back to the credit of the very persons who had loaned them to the government two days before. Such a loan, like every other loan, is really made from the Floating Capital of the country.

Still the qualification must be made, that Bank Deposits are not money, but means of economizing the use of money. Any movement of them is a "transfer of indebtedness," which offsets the transfer of some portion of the Floating Capital of the country. Hence their action is precisely similar to that of accounts-current, bills of exchange, and other offsets of debt and merchandise. Michel Chevalier, the distinguished French Economist, says of them: "Let me repeat, that all these instruments which, together with gold and silver, pass from hand to hand to liquidate transactions; all those combinations which dispense with the use of any instruments of circulation whatever, among which the bank Deposit is the most remarkable, are to be classed together under one precise and simple denomination, that of *credit*. All these contrivances and instruments of credit are *substitutes for money*, and not one of them is *money* itself; and any attempt to treat them absolutely as money would be attended with the most serious inconvenience. It would be as great a mistake as to confound the portrait with the original, the shadow with the substance."

And Lord Overstone, the eminent banker who is the real author of the present banking system of England, remarks: "Deposit

business is a mode of economizing the use of the circulation; by means of resorting to that process, a greater amount of obligations or of transactions can be adjusted with a smaller amount of circulating medium than could otherwise take place; but an economic use of the circulation is not itself circulation. * * * * A less amount of the circulating medium of the country has been sufficient to perform certain functions, in consequence of that economic process of using the money which arises out of banking deposits. The same thing exists to an enormous extent in the system of the Clearing-House; but will any man in his common senses pretend to say that the total amount of transactions adjusted in the Clearing-House is part of the money or circulating medium of the country? The Bank of England, or any other banker, can clearly pay his deposits only to the extent of the banking reserve in his till. The banking reserve in his till is the money with which that business is worked, and constitutes the amount of circulation under his control. It is to mistake the amount of business done for the instrument with which it is done to call Deposits circulation. Deposits are the business worked, the reserve in the banking-till is the instrument with which they are worked, and the instrument by which your business is worked is the circulation or money of the country."

We are thus brought to consider another function of the Banks. In this country, these institutions, it is well known, have three perfectly distinct functions; viz., Deposit, Discount, and Circulation. I call them distinct, because each of these offices might be, and often has been, exercised by itself, without being combined with either of the others. The business of *discounting* is commonly known as that of *lending money;* it might more properly be called that of *purchasing debts*, or furnishing in advance the present value of promissory notes or bills of exchange, which have still some weeks or months to run, the difference between their *present worth* and what they will bring at maturity being the *discount*, or what the Bank charges for lending its credit in the transaction. I say "lending its credit," because the Bank very seldom has occasion to use real *money* in this portion of its business. In fact, for the most part, it barters one sort of indebtedness for another, its own promises to pay for other people's promises to pay. It deals in *paper evidences of debt*, such as promissory notes, drafts,

bank-bills, and bills of exchange. Observe that this paper *is not* a part of the Floating Capital of the country, and therefore to increase the quantity of such paper is not to augment that Capital. The "paper constitutes, it is true, an article on the credit side of the books of some men; but it forms an exactly equal item on the debit side of the books of others. It constitutes, therefore, on the whole, neither a debit nor a credit." Or the matter may be put in another light, thus: As the material articles which constitute the Floating Capital of a nation are perpetually changing form and changing hands, while the *property* or *ownership* of them often remains unchanged, there must be evidences of that ownership, such as notes, bills, and stocks, which are mere representatives of the wealth existing elsewhere. Their value to the owner of them consists only in the fact that they enable him, whenever he sees fit, to *reclaim his property*, or to take possession of those articles which actually belong to him, though for a time he has trusted them to others.

Now the Banks traffic in these evidences of indebtedness or certificates of ownership, exchanging one class of them for another. But as they are instituted only for the convenience of the trading community, whose wants, though perpetually recurring, are temporary in their nature; (since each individual merchant, as already explained, has a superfluity of capital one week, and perhaps a great need of more the next week;) the Banks legitimately discount only what is called *short paper*, or indebtedness which has but a short time — say, from thirty days to six months — to run before it comes to maturity, or is to be paid. They do this, not only because a greater quantity of such paper is offered to them, but for their own security, since the sums so loaned out return to them more frequently and in larger masses, and they can thus be more quickly brought within their own control, to guard against unforeseen emergencies. Moreover, they thus run less risk of the insolvency of their debtors. They can tell with some confidence whom it is safe to trust for a few weeks, or even a few months. But in a community where the fluctuations of fortune are as great and sudden as in this country, one does not know that it is safe to trust anybody for a year or two ahead.

It is no part, then, of the proper business of the Banks to discount the notes of the United States government, which

recently flooded the market, and had three, five, ten, or twenty years to run. The Banks were not deficient in patriotism during the war, because they extended little other accommodation to the National Treasury than a few temporary loans. They exist for the benefit of the merchants, who have furnished their Capital and Deposits for a special and necessary use of their own; and to lock up a large portion of these funds in a permanent loan to the government would have been to deprive commerce of the necessary means of doing its work, and thereby to bankrupt half the mercantile community. The old State Banks had their capital *and* deposits, as a fund out of which to make loans to trade; the new National Banks have their deposits alone to use for this purpose, (the *circulation* of the two systems being supposed to be equal,) their whole Capital being permanently lent to the government. Whether they can thus perform the functions which are required of them by the exigencies of commerce remains to be seen after trade has settled down on a permanent basis, and with specie payments enforced.

We are now prepared to see what are *the two classes* of evidences of indebtedness which it is the business of the Banks to exchange for each other. The depositors at the Banks may be divided into the Debtor class and the Creditor class, the former holding more property, or Floating Capital, than they really own, and therefore having a succession of notes to pay; the latter having in their possession much less property than they own, and therefore having a succession of notes to be paid to them. The Bank itself is an association of persons of the Creditor class, who have Floating Capital at command, but, not needing to use it for themselves, they desire to lend it to others, that they may have the benefit of the interest; in other words, they have good debts owing to them, already matured or payable on demand, which they are willing to transfer to others, who have need of such payments, or rather of those articles of Floating Capital which constitute such payments. A certain amount of good debts of this class, payable on demand, forms the Capital of the Bank. Sometimes this Capital is "paid up" in the bills of other Banks, which are evidently debts of this description; sometimes it is paid in specie; but then this specie is immediately loaned out, or put into the form of debts.

In prosperous times, when credit is good, the Bank and the Creditor class of depositors, unwilling that their funds, existing in this form of debt, should lie idle on deposit, lend them freely to the Debtor class, receiving notes "on time," as the phrase is, — that is, at two, four, or six months; in other words, they receive another class of debts. The nature of the loan is, that a deposit (that is, a debt *due on demand* from a Bank, and therefore just as available as specie in making purchases or paying debts) is exchanged for a note *on time* from an individual, with or without collateral security or indorsement. This, then, is the nature of all large loans or payments; they are transfers of indebtedness, — exchanges of *debt due from the bank payable on demand*, for *private* or *individual debt, due some time hence;* or *vice versa*. Whether the debt due from the Bank is in the form of Bank-bills or of a deposit is of no importance, as one is readily exchanged for the other; the bills may be deposited, the deposit may be drawn out as bills. In either form, in ordinary times, it is immediately redeemable in specie, and hence is quite as acceptable for cancelling obligations or purchasing commodities as the specie itself.

When credit has been pushed too far, and distrust begins to prevail in the community, the Creditor class are less willing to exchange *immediate Bank* debt for *prospective private* debt, even when tempted by high rates of interest. They allow a large portion of their funds to revert into the former state, which is more secure, but less profitable, by enforcing payment of the private debt as fast as it matures, without reinvesting the proceeds. The aggregate amount of the Deposits may be the same, but instead of circulating freely, they are now accumulated in sluggish masses to the credit of the Creditor class; and distress of the Debtor class is the inevitable result. Specie reserves, and other legislative precautions against overtrading, affect at best the security only of the *immediate Bank debt*, which nobody distrusts even in a time of commercial panic. The real evil which leads to such a panic is the excessive amount of private prospective indebtedness, which the action of the Banks has done nothing to foster, and is powerless to relieve.

I pass now to what is, *in this country*, the third function of all *chartered* Banks, — viz. the issue of Circulation — Bank-bills, or

their own "promises to pay" — to serve as currency. My first remark is, that the exercise of this third function is not at all necessary for the proper execution of the work which the Banks are instituted to perform, viz. to aid the merchants in the legitimate operations of commerce. To receive Deposits, and to make short loans to their customers out of these Deposits and their Capital, is their sole legitimate business; and this they are abundantly able to perform without issuing a dollar of *their own* currency. No charter, or special authority from the legislature, is needed to empower any one who has credit enough with the mercantile community to perform both these offices, since they are lawful acts of ordinary trade. A merchant has a perfect right, without asking anybody's leave, to put his surplus funds from time to time into the keeping of any other merchant whom he chooses; and to do so on condition that this other merchant will not only return his deposits on demand, but will also make loans to him to a reasonable extent, whenever he needs them.

This is what is meant by the cry often raised for the perfect freedom of unlicensed banking. There are already many such private bankers in Boston and New York, both in and out of State Street and Wall Street, most of them, it is true, enlarging their work by dealing in foreign exchange, which is another legitimate operation of free banking. If an individual, or a firm of three or four partners, have not capital and connections enough to do this work profitably, a greater number might unite into a joint-stock association for these purposes, under a general incorporation law; since the power to sue and be sued in their corporate name, and the principle of limited liability, each stockholder being responsible only for the amount of his stock, can be as reasonably demanded by such a company as by any association of cotton, woollen, or iron manufacturers. It is so in the city of London, where most of the banking business is performed by some fifty private banking firms, and eight or ten large Joint-Stock Banks, not one of which, whether private or joint-stock, issues a shilling of its own currency. The Bank of England is, in all essential respects, a great fiscal agent of the government, acting under the general supervision of Parliament and the Ministry, and rendering a fair equivalent, by its services to the Treasury and in the management of the National Debt, and by an annual payment of

£180,000, for the exclusive privilege which it enjoys of issuing its own currency for the city of London and for a region within 65 miles thereof.

In 1857, three of the Joint-Stock non-issuing Banks held, in the aggregate, thirty-three millions sterling, or over 150 millions of dollars, in private deposits; while those deposits in the Bank of England amount, on an average, to only sixteen millions sterling. Even here in America, as the theory of banking comes to be better understood, and its practice is gradually perfected, especially at our great centres of commerce, the fact is becoming apparent, that the privilege of issuing their own currency is comparatively of little worth to the *city Banks*, and might be given up altogether without materially diminishing their profits. In the city of New York, for instance, before the war, while the Banks often had over 90 millions of Deposits, and made loans amounting to 125 millions, their aggregate Circulation did not exceed eight millions. Make a fair allowance for the expense and trouble of managing this currency, and it will appear that, if the privilege of issue were surrendered, the Banks would not lose ½ of one per cent of their profits. As for the country Banks, their privilege of issuing their own bills as money has been in very many cases so atrociously misused, leading to great losses by the community at large, to political intrigue and corruption, and to the great injury of the banking system itself and of the merchants who depend upon it for aid, that common justice and prudence require its entire abolition.

There are two perfectly distinct currencies or media of exchange in use, — the first by Banks and merchants in their financial transactions, the second by the great body of the community in their intercourse with each other, and in making purchases of the retail traders. The former consists mainly in the transfer of Deposits by checks and drafts, and in offsets through accounts-current, bank-bills appearing only in comparatively insignificant quantities for squaring the accounts or settling small balances. The latter consists exclusively of bank-bills, and of coin in small quantities for convenience as change. The great body of the consumers have no dealings with the Banks, and know nothing of their modes of operation, except as they occasionally place their surplus earnings in Savings' Banks. They receive their wages, salaries, or

small incomes from independent sources *in bank-bills and coin*, and make all their purchases and payments in this currency, paying *cash* (as the phrase is) for all that they get; or, if they get credit occasionally, they settle the account at last by payment in bank-bills, — mostly in those of small denominations, seldom seeing anything larger than a ten-dollar note, and that not frequently. If a twenty or fifty dollar note happens to stray into their possession, they either obtain change for it immediately, or hoard it, or lodge it in a Savings' Bank. Merchants, also, make what small purchases they have occasion for, in personal or household expenditure, from retail dealers, in this currency, and therefore keep a small amount of it in their possession. But they mostly carry their professional habits of trade down into these petty transactions of home life by purchasing articles of household consumption on account from a few tradesmen, and settle the account at the end of a month, or of a quarter, by a check upon the Bank. And in their proper commercial operations, whether as retailers with jobbers, jobbers with importers or wholesale dealers, or all of them with the Banks, and the Banks with each other, bank-bills, or money properly so called, hardly appear at all, — never appear, it might be said, except to adjust fractional differences. Their operations, whether on a larger or smaller scale, are completed at last, as *monetary transactions*, by passing a few checks or notes, and making a few entries on their books. Obviously, therefore, trade is thus far reduced to direct barter of commodities for commodities, the *idea* of money being introduced only to furnish a unit of measurement, or means of comparative valuation of the merchandise exchanged.

There is, then, what may be called a *deposit currency*, (though, strictly speaking, it is no currency at all, but a system of cancelling debts by offsets,) which is properly furnished by the Banks, and is used exclusively by merchants and manufacturers *in their capacity as dealers;* and there is a small-note currency used by the people at large *in their capacity as consumers.* To issue this last is no proper office of the Banks, and never would have been permitted to be assumed by them but for the accident that bankers were the first to discover, or invent, this mode of economizing the use of specie, or money properly so called, and, finding it very profitable, chose to keep the benefits of their discovery to

themselves, or to purchase the privilege of issuing it from the legislature, as the Bank of England did less than two centuries ago, the price paid being the loan of its whole Capital to the government. A Bank might exist, might exercise the two functions now explained of Deposit and Discount, and pay dividends of a reasonable amount to its stockholders, though the currency of a country should consist exclusively of gold and silver. The establishment of the Bank would lessen the amount of these two metals required for making exchanges, — would limit them in great part to the retail trade, or to transactions between dealers and consumers, — the business of dealers with each other being adjusted almost exclusively by checks transferring Deposits.

But it now becomes a question, whether the precious metals may not be dispensed with, even for this service. They are needed only to be passed from hand to hand; their material and specific qualities — their hardness, weight, etc. — are not wanted to fit them for such transfer. A scrap of paper would answer just as well to be passed about, provided only that the receiver of it felt secure that it would not diminish in value while in his keeping, or that his neighbor would always be willing to receive it on the same valuation upon which it came into his own hands. Instead of effecting a purchase with five hard and weighty silver dollars, it would be even more convenient to effect it with a scrap of paper, which the holder is sure of being able to exchange at any moment, and without difficulty, for that sum in specie. The Bank, having relieved the large dealers from the necessity of using specie through its system of checks and deposits, may now relieve the smaller ones, and the community generally, from such necessity, by issuing its own notes for small sums, payable on demand in gold or silver at its own counter. In its immediate vicinity, such notes would evidently be preferred to coin, on account of their superior convenience; beyond that vicinity, they would not circulate, because the distance would oppose an obstacle to their *immediate* conversion into cash, and because the circumstances and solvency of the Bank could not be so well known at a distance. The issue of this currency, and the whole profit on its circulation, properly belong to the government,— that is, to the people at large; because it is the people who use it, and if it is discredited, or becomes worthless, the whole loss falls upon the

people. As the loss is theirs, the gain also should be theirs. Independent of legislation, and without paying a full equivalent for the exercise of so very profitable a function, the Banks have no more right to create a national paper currency than they have to levy a tax on the community for the purpose of keeping up a police. The government alone, looking more to the interests and security of the whole people than to its own immediate gains, is competent to make the currency uniform throughout the country, and to surround it with proper safeguards and limitations. Perhaps it may elect for this purpose to use to some extent the agency of the Banks; but then the Banks should act only in this subordinate capacity, the direction, the responsibility, and the profit being with the state.

A double wrong has been committed by intrusting the Banks with this power to issue and control the currency of the people. It has been unjust and injurious to the Banks themselves, in that it has given rise to the opinion that they are properly subject to direction and restraint by the legislature, even in their two legitimate functions of Deposit and Discount. It has been unjust to the people, because they have thereby lost all the advantage which they ought to have reaped from their adoption of a paper circulation instead of specie, though they are still exposed to all the hazards which attend the use of this insecure species of currency. The same cause has led to a very injudicious increase of the number of the Banks and the amount of Bank Capital; they have been established in localities where they were not wanted, and where they even did harm to trade by fostering hazardous speculations, merely to secure the profit of supplying the local currency. This control of the circulation is of vastly greater importance in the United States than in any other commercial country, because specie has been more completely driven out of use here by the issue of small bills. In England, with slight exceptions, the smallest circulating note is one of five pounds sterling, or twenty-five dollars; and as most persons, excepting merchants and wealthy people, do not need to have so large a sum as this in their possession at any one time, the bulk of the community use nothing but gold and silver coin. Hence it is that the whole paper circulation of England does not exceed about 120 millions of dollars, and is mainly in the hands of traders. In this country, the amount is

now six times as great, and almost every person in the community, who is not an actual pauper, must have more or less of it in his possession, and suffer loss when it is discredited. So long, also, as each individual State exercises without control its privilege of creating Banks of its own, and empowering them to issue Bank currency, the evil is greatly enhanced, and all power of protection and restraint is effectually taken away. Massachusetts, for instance, might regulate her own Bank currency; but to what purpose, seeing that she cannot exclude from circulation within her own limits the unregulated Bank currency of the neighboring States?

I do not favor the exclusive use of coin, even in small transactions. Gold and silver are needlessly expensive as a circulating medium. We lose the whole annual interest on the vast sum thus required, and about one per cent more each year by its abrasion and the loss consequent on fire, shipwreck, and other casualties. Paper is cheaper, less burdensome, more convenient, and, *when properly regulated*, perfectly secure. But I insist that the whole people, who consent thus to use paper instead of specie, are entitled to the whole profit or saving thereby effected; that the Banks have no claim whatever to this profit, and do not need it; and that the people ought also to be fully protected against loss by fluctuation in the value of this paper, or by failure to redeem it on demand in coin or bullion. These ends can be secured only through its issue, under proper precautions, by the government for the common benefit, the whole economy accruing from its use going to lessen the burden of taxation. Especially in the awful trial to which this country has recently been subjected, and from which, in a pecuniary point of view, it has not yet emerged, the whole people are entitled to all the benefits which may thus be reaped. We are at this moment trying the experiment of a paper currency on a larger scale than the world has ever witnessed. Paper is our only circulating medium down to the lowest copper coin. We can thus, if we will, save the whole annual expense of at least one seventh, probably of one sixth, part of our enormous National Debt. How this great advantage has been thrown away, and worse, partly by allowing the paper so to depreciate as to double the weight of taxation, and partly by making a free gift of the larger portion of it to a crowd of ill-regulated National Banks, will be shown hereafter.

The proper function of a Bank is to supply funds for use only as Circulating Capital, the process of production being comparatively a short one, and the value of the completed product soon serving to replace the advances which were necessary for wages, raw material, etc. while the work was going on. Thus it can lend to a farmer in the spring enough to buy seed-corn and to pay the wages of his laborers, and the proceeds of his crop at harvest-time will serve to repay the loan. It can lend a retail dealer enough to purchase an additional stock of goods, if there is a reasonable prospect that the goods will be sold, and the money be received for them, in season to meet the payment of the note which has been discounted. But the Bank cannot safely aid agricultural, commercial, or manufacturing enterprise by supplying funds for the construction of ships and machinery, for the digging of mines or canals, for the bringing of waste lands into cultivation, or for any long-winded speculation; in short, it cannot supply funds to be employed as Fixed Capital. The values invested in any of these forms can be but slowly replaced, or only after considerable intervals of time; the ship, or the machine which will last twenty years before it is worn out, can pay for itself only out of the accumulated profits of nearly twenty years. The builder, indeed, may safely obtain a Bank loan to enable him to finish his work, if it is his intention to sell the ship or the machine as soon as it is completed. In such case, he needs the funds for use only as Circulating Capital; it is the purchaser, or the person who intends to employ the ship or machine, who really needs the use of funds as Fixed Capital. Money lent for such purposes can be repaid, when due, only by other notes, which have a further term to run, and are negotiated with the deduction of discount. When these fall due, they are met by a third set payable at a still later date, and discounted in like manner. This operation is only an expedient for borrowing of the Bank in perpetuity, or for an indefinite series of years.

Land-banks, as they are properly termed, have been instituted at various times in England, France, and even in some of the States of this Union, on the principle of lending capital upon the security of real estate, in order to make improvements upon the property. In such cases, the security, indeed, is unexceptionable; but if the Bank currency thus issued is returned to the institu-

tion to be redeemed in specie, there will be only mortgages to be offered for it, and the Bank will be obliged to refuse payment. Consequently, the history of such Banks has been uniformly disastrous.

As a general rule, the currency will not absorb Bank issues, or prevent them from being soon returned for redemption in specie, if those issues have not furnished a means for the immediate creation of fresh values, the proper circulation of which requires an additional amount of money. If Bank-bills amounting to one million of dollars, for instance, are lent to supply the manufacturers with Circulating Capital, additional manufactured goods will be brought into market, in the course of a few months, to the value, probably, of $1,200,000, allowing 20 per cent for profit; and the numerous exchanges occasioned by this additional quantity of merchandise will require additional currency, not amounting, it is true, to one million of dollars, the original amount of the loan, but still sufficing to keep back a considerable portion of the bills from being presented for redemption at the Bank counter. On the other hand, if the same amount of bills should be lent to furnish the manufacturers with Fixed Capital, the additional goods brought to market in the course of the next year might not exceed $150,000, and but a small portion of the bills would therefore be absorbed into the currency.

In ordinary times, when specie is the only legal tender, if the paper issues of the Banks exceed the demands of circulation, there follows a perpetual reflux of the Bank-bills, which will soon drain the specie reserves, and can be checked only by a limitation of the issues. It is not necessary that the bills should be actually presented at the counter with a demand for their redemption in coin. They may also be brought back by the customers of the Banks, who make deposits with them, or return them in payment for their notes which have been discounted, and have fallen due.

It is only in a period of excitement, during a commercial crisis, or an alarm for the solvency of one Bank or of all the Banks, that the notes are directly brought to the counter for redemption in coin. In ordinary times, the real limit upon the circulation of any one Bank is found in the daily settlement of its accounts with other Banks. In the Clearing-Houses recently established by the Banks both in New York and Boston, every Bank each day pre-

sents all the bills of the other Banks which it has collected in the day's transactions, and offsets with them its own bills which have been paid into those Banks; only the balance, which is comparatively a small sum, is settled by the transfer of specie. Any redundancy of its own issues is sure to be followed by the presentation at the Clearing-House of a larger amount of its own bills than it has bills of other Banks wherewith to redeem them, and by the consequent necessity of paying the difference in gold or silver coin. Checks drawn upon it against deposits must be met in the same way.

Through these necessary dealings of the Banks with each other, they become the watchful guardians of each other's solvency, and are connected by the closest ties of mutual dependence and guaranty. The question which was formerly much debated in this country, whether the banking business of the community would be more safely transacted by one great national Bank, resembling the Bank of England or the Bank of France, or by numerous small Banks of comparatively private character and limited resources, as in what was the American system up to 1863, is one of no substantive importance. As our small Banks necessarily deal with each other, by receiving each other's bills and settling their mutual accounts every day, they are virtually bound together into one institution; if the issues of any one of their number become excessive, the others are the first to perceive it, and are the first losers by its insolvency. This remark applies to them, however, only in their single function as Banks *of circulation;* their two other functions, of receiving deposits and making discounts, may be, and often are, exercised by private merchants and capitalists, just as well as by the Banks themselves. And these two functions constitute far the larger part of the banking business. If the transactions of one great Bank are more publicly known and closely scrutinized, and if it can be managed by a few persons of high reputation for probity, wealth, and intelligence, so the consequences of its failure would be more general and more disastrous. It would not be watched by any rival institution deeply interested in an early detection of its insolvency. Massachusetts had 169 Banks, with an aggregate capital of over 58 millions, and an aggregate circulation of less than 23 millions. If all this business were concentrated in the hands of one institution, even the rumor that it

was in danger would create a panic that would paralyze the business of the whole State, and its actual failure would occasion almost universal bankruptcy. But under what was the system up to 1863, the unsoundness of one Bank is quickly detected, and the rotten member is easily lopped off without shaking public confidence, or doing more than slight injury to very few individuals. The average circulation of a Massachusetts Bank was but little over $135,000, and that of the largest Banks did not equal half a million. There are many private merchants whose liabilities greatly exceed this amount, and whose failure would be a more serious shock to public credit. And the cases of insolvency are proportionally more numerous among the merchants than among the Banks; of the latter, there were not more than half a dozen failures in fifteen years.

Nothing can be more erroneous than the common opinion that the Banks are able to increase their loans, and augment their circulation, at pleasure, or according to their own ideas of what is safe and expedient. There are no other funds from which loans can be made but (1.) the capital, (2.) the average amount of the deposits, and (3.) the excess of the circulation over the specie reserve. The first of these is a fixed quantity, determined by the charter and the nature of the case. The amount of the second depends upon the number of the customers of the Bank, and upon the nature and extent of their business; the deposits are made up by those who need to have money at hand, or within call, as it were, but have no immediate occasion to use it; and though their deposits are continually being withdrawn and replaced, or transferred from one person's credit to another's, their average amount is nearly a fixed quantity, and, after a little experience, can be easily determined. The third fund, though generally supposed to be variable, is in truth as much a fixed quantity as either of the others. We have seen that a reflux of the Bank issues is always steadily going on, not through their presentation for specie, but through the receipts in deposit and in payment of the loans and discounts which have come to maturity. The Bank can do nothing to lessen or retard this reflux, except by diminishing the issue of the bills. If it should suddenly and incautiously enlarge its issues to day, there would be an equivalent augmentation of the reflux to-morrow; for as the community was previously supplied with currency enough for its usual

exchanges, the additional amount of money thus thrown into the market must come into the hands of persons who would have no immediate occasion to use it, but would lodge it on deposit in the Banks, and it would thus be immediately returned to the source whence it came.

When specie is the only legal tender, if the currency be mixed, consisting of specie and convertible Bank-bills, the amount of Bank-bills of any given denomination which remains in circulation is determined exclusively by the convenience, the feelings, and preferences at the time, of the people among whom they circulate, wholly irrespective of the regulations and the efforts of the institutions which issue these bills, — provided only that they issue them freely, or do not arbitrarily keep the supply below the amount which the community is willing and desirous to receive. The Banks may create a deficiency, but they cannot create an excess, in the circulation of such bills. In the numerous payments which are daily made at the Banks, either in deposit or in liquidation of notes, that element of the currency, be it specie or bills, which is least in demand, least adapted to the present wishes and convenience of the people, will predominate, and will thus be quickly eliminated from the active circulation, till the ratio of the two branches of the currency is reduced to that point which the popular will requires. As the daily payments *into* the Banks must, on an average, just equal the daily payments *out* of them, no effort or contrivance of the Bank managers can avert this result. They *may* pay out, they usually *do* pay out, nothing but bills, and therefore, as a general rule, only bills are paid in; and thus the proportion of bills to specie continuing in circulation remains unaltered. But if a panic respecting the solvency of the Banks should be created, besides the usual payments in deposit and in liquidation of notes, bills will be presented at the counter to be cashed, or redeemed in specie; and thus the proportion of coin in active circulation is rapidly augmented. After the panic has subsided, finding that so much coin is inconvenient, on account of its weight and bulk, and the trouble of counting it, specie will be freely paid in on deposit; and then the Bank payments in bills will quickly restore the usual amount of paper to the currency.

I have already borrowed from Adam Smith the ingenious illustration, that "the gold and silver money which circulates in any

country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either." He carries out the comparison still further. "The judicious operations of Banking," he remarks, "by providing, if I may be allowed so violent a metaphor, a sort of wagon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labor. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskilfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of those conductors can guard them."

CHAPTER XV.

PAPER MONEY, AND ITS USE AS CURRENCY DURING A REVOLUTION OR CIVIL WAR: HISTORY OF THE EMISSION OF SUCH MONEY IN THE WAR OF THE REBELLION.

We have still to consider the circulation of Paper Money properly so called, or of bills which do not profess to be immediately convertible into specie. These are sometimes issued by the state, in cases of great emergency, and are then usually called legal-tender notes, or *bills of credit*. The Constitution of the United States declares that "no State shall coin money, emit bills of credit, or make anything but gold or silver coin a tender in payment of debts." It is still a disputed question, whether this prohibition applies only to the legislature of any individual State, or extends also to Congress and the National government. This question has never come up for decision by the Supreme Court of the United States; meanwhile, as we all know, Congress has assumed this questionable authority, and has exercised it ever since

1862, by sanctioning large issues of Paper Money or "bills of credit" both by the National Treasury and the National Banks. Bank-notes, of course, after the banks have suspended specie payments, so that their notes are no longer convertible into coin on demand, become "bills of credit," or Paper Money. Thus the currency of Great Britain consisted of Paper Money from 1797, when the Bank of England suspended payment, till 1819, when it again began to redeem its notes in specie.

The distinguishing characteristics of Paper Money are, that it is inconvertible, and its circulation is compulsory. Thus, when the government has no longer the means of meeting its pecuniary engagements, it begins to make purchases and to pay its debts by issuing, not coin, nor bills immediately convertible into coin, but its own promises to pay at some future time. These "promises to pay" are made *legal tender*, — that is, creditors are compelled to receive them in satisfaction of their demands. Their circulation is compulsory, then; but the very fact that they are receivable in payment of debts, as we have already shown, gives them a conventional value. To any person who has money to receive, it does not matter whether the money possesses intrinsic value or not, or whether the "promise to pay" which it bears upon its face is ever redeemed or not, provided he is sure that he can make payments with it, and cancel his own obligations. Paper dollars are as good as silver ones, so long as they will cancel debts and effect purchases equally well.

Paper Money of this kind was issued by many of the American Colonies before their separation from England; and from the various degrees of its depreciation in different parts of the country arose the different value of the *shilling*, which is still with us a popular denomination of account, though not an actual coin, and not recognized in the legal currency. The shilling was the denomination used in the Colonial Paper Money, Spanish dollars being the coin in which they were ultimately to be redeemed; and when the shilling had its par value, 4*s.* 6*d.* were equal to a silver dollar. But paper shillings became depreciated, so that, in New England, *six* shillings came to pass for a dollar; in New York, *eight*, and in Pennsylvania, *seven* shillings had this value. The *names* of these "shillings" and "pence" have remained for a century after the disappearance of the reality, and still create much confusion in the popular mode of reckoning money.

One remarkable experiment of Paper Money here in America was the Continental currency, as it was called, issued by authority of Congress during the American Revolution. The epithet "Continental," like *National* or *Federal* nowadays, marked the distinction between what was done by the government of the whole Union and the acts of the separate Colonies or States. In June and July, 1775, to meet the expenses of the war which was seen to be inevitable, Congress, having no other funds, issued three millions of dollars in these bills of credit, with a promise, which was not kept, that they should be redeemed in four annual instalments, to commence at the end of four years. In November of the same year, the issue of three additional millions became necessary. Specie, which had been scarce before, had now almost entirely disappeared from the country, and the "Continental money" was considerably depreciated. So rapidly did this depreciation and the exigencies of the war increase, that in the course of the following year, 1776, fourteen millions more had to be issued. Additional issues continued to be made, and the paper continued to depreciate, until, in 1780, the amount in circulation was about 200 millions; and 500, even 1,000, dollars in this currency were offered for one in silver. Then, finally, the bills ceased to circulate, and became entirely worthless, as dealers would not accept them on any terms.

No attempt was subsequently made to cancel the original obligation by redeeming the bills, either in full or in part; for as the depreciation had been gradual, while the bills were rapidly circulating in the community, it had obviously become impossible to measure the exact loss which each holder of them had suffered. To pay the last holder in full would only have aggravated the injustice, by giving him much more than was his due, and leaving his predecessors without any compensation whatever. It was justly remarked, that the depreciation of the Paper Money ought to be considered as a tax, inasmuch as the paper was first issued only to relieve the people from the necessity of paying a tax. Each person through whose hands the money passed parted with it again at a loss, proportioned to the quantity he held and the time he held it. As the currency circulated among the whole people, the rich and poor holding it, and suffering by its depreciation in proportion to the respective amounts of their cash

purchases and sales, the whole loss was divided among them very nearly in just proportion to their ability and liability to pay a tax. The payment of the whole value borne on the face of the bill to the last holder, who had received it at the rate, perhaps, of a hundred for one, could have been made only by a second tax on the same persons who had already been fairly and heavily taxed by its depreciation.

The history of the Paper Money issued in France, in the course of the Revolution of 1789, is perfectly similar to that of the corresponding experiment in America. The French bills of credit, however, as their name (*assignats*) indicates, were nominally issued upon a basis of real property. The national domains, as they were termed, or the confiscated estates of the crown, the clergy, and the emigrants, were made over, or sold in mass, to the municipalities or towns in which they were respectively situated. These municipalities, not having funds to pay immediately, received the property on long credit, binding themselves to pay in instalments, as fast as they were able to make sales of the estates without sacrifice. The creditors of the state then obtained their dues by receiving orders, or "assignments" (*assignats*), on the municipalities for a portion of the debt thus due to the state. These *assignats* were transferable property, which might be exchanged for commodities, or assigned in payment of debts; and to aid the negotiation of them, they were made transferable without indorsement, and constituted *legal tender;* that is, they were converted into Paper Money; and as the issue of them increased, they displaced the sounder portions of the currency, and became the universal medium of exchange.

As the expenditures of the state were heavy, through the war in which it was involved, and as it was an easy process to stamp and issue *assignats* in satisfaction of all demands, the issue of this Paper Money soon became excessive, and the inevitable consequence followed, — its rapid and great depreciation. Bread rose to 22 francs (nominally over $4) a pound, and the prices of other commodities were in proportion. The issue of *assignats* amounted, in 1796, to the enormous sum of 45,000 millions of francs. But the state receipts from taxes, loans, the sale of the national domains, and other causes, had reduced the amount actually in circulation to about 24,000 millions. They finally be-

came so much depreciated that, by a spasmodic effort, both the government and the people reverted to a specie currency. The final result of the experiment in France, as in America, was, that, through the depreciation of the currency, the people paid a very heavy tax for the success of the Revolution, — a tax somewhat irregularly and unequally imposed, but yet approaching as near to equity as could be expected from any public measure which had its birth in the exigencies and turmoil of a great civil war.

Paper Money was also issued by the revolutionary authorities of Hungary and Rome in 1849; but the speedy restoration of the former government in both cases prevented the experiment from being worked out to an end. The government of the Confederate States also made lavish issues of Paper Money during the Great Rebellion. This Southern currency had fallen to one hundredth part of its nominal value before the capture of Richmond; and after that event, of course, it became worthless and ceased to circulate.

In fact, experience has proved, what might have been demonstrated from the theory of the subject, that this kind of money is a proper *revolutionary currency.* It is usually first issued amid the commercial disasters, and the destruction of public and private credit, which are among the first consequences of the overthrow of an old government, and the outbreak of a civil war. The way is prepared for the introduction of it by a violent contraction of the old currency, consequent on the general disappearance of the gold and silver coins, which everybody at such a crisis is disposed to collect and hoard, or to send out of the country. This gap or vacuum in the circulation manifests itself by the extraordinary low prices of all commodities, the difficulty of effecting sales of any kind of property, the consequent impossibility of meeting commercial engagements, and general bankruptcy. Some kind of money — it hardly matters what — is needed to fill up this gap; and it turns out, by a happy coincidence, that the issue of some sort of conventional currency is the only financial resource of the revolutionary government. At the trivial expense of stamping bits of paper with a vague "promise to pay" at some future date, the insurgent authorities, otherwise penniless, find their exchequer as well supplied for a time, as if, to adopt Mr. Ricardo's illustration, a gold mine had been suddenly discovered within the pre-

cincts of the public treasury. So long as the new currency is not more than sufficient to fill up the vacant space in the old one, its value will remain nearly at par; — *nearly*, I say, because gold and silver coin, being capable of exportation, which Paper Money is not, will always command a slight premium. And tho slight difference indicated by this premium will act still further in favor of the new currency; because, for reasons already explained, the depreciated or overvalued money will drive out even what remained of the perfect and sound currency, and take the whole circulation to itself.

Any revolutionary government, therefore, though it should inherit, as is most probable, only an empty treasury, may at once obtain funds equal in amount to the whole circulation of the country, by merely issuing Paper Money to this extent. Still further; this issue, coming immediately after a period of violent contraction of the currency, and of consequent low prices, inability to realize property or collect debts, general want of credit, and widely spread bankruptcy, will have the effect to raise prices again, to restore confidence, to animate commerce anew, and to diffuse through the country the glow of returning prosperity. All this will operate to the advantage of the new government, and the revolutionary fever of the people will rise higher than ever. Yet again, as this Paper Money, now in universal use, depends solely upon the faith of the revolutionary government, whose engagements, it is feared, would not be respected by the former authorities, should they be restored to power, every person in the country has an interest in resisting such a restoration, and supporting the cause of the insurgents.

It is thus that a heavy national debt and a depreciated paper currency, such as exist in Austria at the present day, though to a superficial glance they may appear as sources of weakness in the government, are in truth the pillars of its strength. Every capitalist, every person who has any property to lose, under such circumstances, will resist a revolution to the death, fearing that the successful insurgents would wipe out the debt with a sponge, and obtain room for a new batch of Paper Money by repudiating the former issue. Without its enormous national debt, it may be doubted whether even the government of Great Britain could have resisted as successfully as it did the political convulsions of the memorable year 1848. As it was, every stockholder and every

shopkeeper in London armed himself as a special constable, to resist the ragged army of proletaries who assembled on Kennington Common in April of that year.

Could the revolutionists stop here, then, in their issue of Paper Money, all would be well. Unfortunately, they cannot stop. There is a necessity of lavish expenditure in a revolution, especially if the exigencies of a civil or foreign war are added to the other demands on the treasury. Having put forth Paper Money enough to fill up the whole circulation of the country, and being intoxicated with the brilliant success of this measure, the needy government finds itself compelled, not unwillingly, to issue more; and then, inevitably, marked depreciation ensues. As the depreciation goes on, moreover, the necessity of issuing more paper rapidly increases; and hence it is, that, when the fall in value has once begun, it seems to continue and increase with frightful rapidity. When the depreciation, for instance, is at 50 per cent, the prices of all commodities are doubled; government must pay twice as much in wages and salaries, and for provisions and munitions of war, and must therefore pay out 200 millions to do the work which 100 millions did before. At the same time, its resources are diminished; all payments to it, being made in the depreciated currency, are worth but half their nominal amount. When the currency has fallen to one fourth the value of coin, 400 must be issued where 100 formerly sufficed; and the deficit in the receipts being added, the proportion may be even five or six for one.

It must not be inferred, however, that this rapid depreciation of the currency will seem to impede traffic or to paralyze industry. On the contrary, commerce and labor will be galvanized into unnatural activity, and a deceitful glow of animation and success, like the flush of a fever, will appear to pervade the nation. Prices rise, of course, as rapidly as the currency falls; property which was sold for 100 to-day will command 500 or 1,000 to-morrow. At the same time, money is superabundant. The pressure of debt is also lessened; obligations are cancelled by paying back what is actually but one half, one fourth, or a still smaller fraction, of the real value which was due. Ease in getting rid of old debts only creates a thirst for contracting new ones. Commerce is thus stimulated, while the basis on which it rests is every day becoming less secure. A reckless spirit of speculation, akin to gambling

in its character and results, appears to seize the greater part of the community. The circulation of Continental money in America, in 1779, as we are told by a writer of that day, was "never more brisk and quick than when its exchange was 500 for 1." And M. Thiers, speaking of the depreciation of the French *assignats* in 1795, says, that to the horrors of famine were added the scandals of reckless speculation and stockjobbing, the sale of merchandise which had no existence, as the pretended traffic was only betting upon prices, and the diffusion of a taste for luxury, dissipation, and excess, which is the invariable concomitant of sudden mutations of fortune.

The same evils have been experienced in this country ever since the emission of Paper Money first became excessive, in the summer of 1862. While the uncertainty of the markets and the fluctuations of prices have depressed legitimate trade, and caused manufacturing enterprise to be fitful and spasmodic, thus keeping the wages of honest labor below their natural ratio to the cost of living, reckless speculations in stocks, gambling in gold, the corruption of legislative bodies and municipal councils, and even of the courts of law, and dishonest management of railways and other great industrial undertakings, have been so fostered as to debauch the public conscience and cast a deep stain upon the national character. Scoundrelism and effrontery in finance have so far succeeded in amassing millions and escaping punishment, that they have almost ceased to be regarded as disgraceful. The prolonged use of Paper Money, and the enormous fluctuations in its value, have done even more harm to the morals of the country than to its commerce, its reputation, and its financial well-being.

We can now explain the great difference between convertible bank currency and inconvertible bills, or Paper Money properly so called, — that the latter is liable to issue in excess, and consequent depreciation, while the former is not. We have seen that the former is necessarily liable to perpetual reflux upon the institutions which issue it, the amount remaining in active circulation not depending at all upon the wishes of the banks, but upon the convenience of the public. This reflux takes place in three forms, through lodgements in deposits, the repayment of loans and discounts, and actual presentation at the counter for redemption in coin. These are but three forms of payment *to* the banks; and in

the long run they must equal, and for a time they may easily exceed, the payments *out of* the banks. It is for the public, and not for the banks, to decide what portion of this reflux shall consist of bills and what of specie, and, consequently, what portion of each shall remain in circulation. The banks can do nothing to affect this result. Those who fear an excessive issue of convertible bank-bills might as well apprehend that Lake Erie would overflow its banks and flood the country, because it is constantly receiving the surplus waters of the three upper lakes and innumerable tributary streams. They forget that the average level of the lake depends, not merely upon the quantity of water flowing into it, but upon the quantity that flows out of it over Niagara Falls; and that nothing could affect the level except raising or lowering the bar at the opening of Niagara River, which regulates the rate of the efflux.

But with Paper Money it is not so. In this case, there is no reflux and no occasion for repayment, so that the quantity in circulation depends exclusively upon the quantity emitted. The currency consisting of inconvertible paper is like the Dead Sea, which receives the waters of the Jordan, but has no efflux; augment the flow into it, and the level must rise. The government pays out its Paper Money in discharge of its debts, in the purchase of commodities, and in the payment of wages and salaries; in neither of these cases does it create any necessity for repayment, so as to bring the bills back again. True, the Paper Money is receivable by the state in payment of taxes and other government dues; but then there will be no necessity of issuing it at all, unless the expenditures largely exceed the receipts; and it is the amount of this excess, or the extent of the annual deficit, — very large in a revolutionary period, or in case of a civil war, — which determines the amount of the annual addition to the inconvertible paper currency. As this currency is not available for remittances abroad, no diminution of it is possible through the purchase of commodities in foreign lands. Every exit and channel of reflux being thus dammed up, the emission of every additional bill must advance the period when depreciation will begin, or increase the rate of that depreciation. To adopt Mr. Tooke's language, the distinction between Bank currency and government Paper Money is, that the latter is "*paid away* and is *not returnable to the issuer*, whereas the bank-notes are only *lent* and are *returnable to the issuers*."

If the banks suspend specie payment, their bills become inconvertible, and are *thus far* assimilated to Paper Money. Still, though *one* channel of reflux is thus dammed up, the bills being no longer presentable for redemption in coin, they can yet be returned to the banks on deposit, and in repayment of the loans and discounts. *Bank* Paper Money is thus distinguished from *government* Paper Money, this last not being returnable at all. It is expended in the purchase of naval and military stores, in building ships, in constructing public edifices, and in the payment of services performed for the state, no means being taken to insure its return to the exchequer. The bank issues, on the other hand, being made only in the discount of approved promissory notes of short date, naturally return after a short interval, even if they are not redeemable in specie. So long, then, as the banks confine themselves to their proper functions, and do not squander their funds, or let them out on doubtful security, there is no reason why, even after a suspension, their currency should be depreciated, except to a very small extent. Thus, the Bank of England suspended specie payments in 1797, but its notes remained at par, or within two per cent of par, till 1801. Then, indeed, a heavy demand for gold to be exported, on account of the large purchases of corn which were rendered necessary by the failure of the English crops, and of large expenditures by the British government in prosecution of the war, made specie rise to a premium, or, what is the same thing, the bank-notes to be depreciated seven or eight per cent. These disturbing causes being removed, the currency rose again in 1803, and continued at a point only 2½ per cent below par till 1809.

As soon as the currency has fallen considerably in value, two prices are established for commodities, one in specie and the other in Paper Money, the difference between the two marking the rate of depreciation. When this difference has become inordinate, the progress of the depreciation is most rapid, the value of the currency fluctuating so suddenly and largely that most persons are unwilling to receive it on any terms. The rate to-day may be 500, and to-morrow 600, for 1; under these circumstances, also, the rate will be found to vary in different localities, and be variously estimated by different tradesmen. So much confusion and uncertainty are thus created, that, by a spontaneous movement of the whole community, the paper currency is discarded altogether, and

the price in specie is the only one that will be received in payment for commodities. If the paper has not already ceased, through the action of the legislature, to be legal tender, acknowledgments of debts are made with an express stipulation that the payment shall be in specie, or some other commodity of fixed value. Such a restoration of the standard seldom requires any action of the government; it is the voluntary and united act of the whole people, having been dictated by the necessities of the case.

The immediate consequences of this reversion to a specie currency are in striking contrast with the results, already noticed, of the first issue of Paper Money and its gradual depreciation. The latter seemed to animate industry and commerce, to relieve the pressure of debt, and to supply abundant funds for industrial enterprises; but the former seems to carry the community back, by a cruel revulsion, to worse evils than those from which it had apparently been rescued. It is the state of collapse that sometimes follows the excitement and delirium of a fever. It is now seen that the issue of Paper Money was really a desperate measure, and that the prosperity which it caused was temporary and fallacious. As money rises from a low valuation to a higher one, wages are depressed, prices fall, trade stagnates, and bankruptcies become numerous; and these evils are the more serious, as the depreciation was great, and the revulsion sudden. Formerly, it was the creditors who were injured, being obliged to receive payment in a currency less valuable than the one in which the debt was contracted; now the debtors, who are more numerous and less able to bear losses, must suffer harm and wrong, being required to pay more than they received, and to do this at a time when, from the depression of wages, the abandonment of industrial and commercial undertakings, and the fall of profits, they are least able to bear an additional burden. All these hardships are summarily attributed to one cause, more frequently spoken of than understood, — "a scarcity of money"; it means only a higher real value of money, the prostration of credit, the consequent inactivity of capital, and general despondency.

As the prosperity growing out of the earlier part of the experiment with Paper Money strengthened the hands of the revolutionary government, so the disasters and suffering attendant upon its close create a reaction, and weaken the cause of the insurgents.

The popular discontent thus generated tends either to the re-establishment of the old form of government, or to anarchy.

It was so at the close of the Revolutionary war in this country, when both the people and the army, exhausted by the efforts and sacrifices which they had made, bankrupt in fortune, and seeing no resources open to them, were for a while on the point of turning their arms against each other. Nothing but the moderation, wisdom, and firmness of their great Commander-in-chief saved the country from the horrors of a military usurpation. The establishment of peace seemed only to render matters worse. The courts then began in earnest to enforce the settlement of accounts and the payment of debts; and the property seized for this purpose being sold at a great sacrifice, its former owners found themselves homeless and penniless, and still burdened with the greater part of their pecuniary obligations. The unthinking multitude then began to clamor for "stop-laws," or enactments to delay process and execution after judgment had been obtained for debt; for "tender-laws," compelling the creditor to accept in satisfaction of his claim any property of the debtor at a fixed valuation or appraisement, instead of offering it at auction for cash, when it would bring but a trifle; and above all, for a new and large issue of Paper Money, the rapid depreciation of which would enable debtors to get rid of their obligations on very easy terms. Several States were weak enough to yield to these demands, and thus only prolonged the period of uncertainty, confusion, and suffering, besides aggravating the evil by injustice. Massachusetts resisted, seeing that really the best and easiest mode of escaping present difficulties was to adhere resolutely to a specie currency, and to enforce a speedy settlement of all outstanding claims, so that industry and commerce might at last revive, without further impediment or drawback from the past. The consequence was, that a formidable rebellion broke out in the State in 1786, the avowed object of the insurgents being to close by violence the courts of law, thus putting a stop to legal measures for the collection of debts, and to compel the government to make a fresh issue of depreciating currency. The insurrection was suppressed with difficulty, and the terror which it inspired had this indirect good result, — that it animated and strengthened the general effort which was then made to create a stable government for the whole Union. This effort led to the adoption of the

Federal Constitution, one article of which, as already noticed, prohibits the individual States from emitting "bills of credit" or enacting "tender-laws."

In France, the final abandonment of the depreciated *assignats* and *mandats*, and the difficulties in which the government was thus involved, had consequences equally serious. The sufferings of the people exasperated them alike against the Revolution and the authors of it, whom they had so recently followed into the wildest excesses of Jacobinism. A reaction took place in favor of the ancient dynasty, which was so general, that the royalists obtained the command of the elections, and seemed likely to obtain their end by a peaceable vote of the two Councils or legislative assemblies. The Directory, indeed, aided by the army, which was still republican in sentiment, prevented this result through the *coup d'etat* of 1797; they seized the leading royalist deputies, and sentenced them to deportation. But the triumph was dearly bought, as it marked the ascendency of military power, and foreshadowed the dominion of Napoleon.

This general review of the subject, which I have intentionally based upon historical facts more than upon abstract reasoning, will enable us more clearly to understand the causes and consequences of the great emission of Paper Money in this country during the war of the Great Rebellion. Early in 1861, the currency of the United States consisted of about 200 millions of dollars in bank-bills issued by the State Banks, over 90 millions of specie held as a reserve by these Banks, and probably 150 millions more of specie in active circulation or of bullion *in transitu* seeking a market. Deducting the portion held by the Confederate States, the circulation at the North probably consisted of 150 millions in bank-bills, and perhaps an equal sum in specie. The anxiety and gloom created by the outbreak of the war produced at first a great depression of trade, a fall of prices, a restriction of credit, and a general hoarding of gold and silver coin. But soon the immense requisitions of the government for the supplies and munitions of war gave a stimulus to manufactures and commerce, and created a great demand for loans. This demand could not be safely met so long as the banks were likely to be crippled in their resources through the withdrawal of specie for the purposes of hoarding and export. Accordingly, by general

consent, the banks and the government suspended specie payments on the 1st of January, 1862; and a few weeks afterwards, Congress authorized the Secretary of the Treasury to issue 150 millions of national currency (greenbacks) in denominations not less than five dollars each; to be legal tender for all public and private dues, except duties on imports and interest on United States bonds, both of which were to be payable in coin. Whatever portion of this currency came back to the Treasury, in loans or in payment of taxes, might be reissued.

This was a moderate and judicious measure, fully justified by the exigencies of the case. It was only securing to the whole people, to whom it rightfully belonged, the advantage of a heavy loan without interest. The sum authorized was not excessive, for it only restored prices to their former level through filling up, by the emission of Paper Money, the gap caused by the withdrawal of specie for hoarding. Hence the depreciation which ensued was but slight, the premium on gold not exceeding three or four per cent till the next summer. The issues of the State Banks, moreover, had become illegal, because they were no longer redeemable in specie; and they were inconvenient, as they formed only a local currency, while the Paper Money of the government circulated freely, with uniform value, over the whole country. The Bank circulation ought, therefore, to have been taxed so heavily as to compel its speedy withdrawal; and then probably 300 millions of greenbacks might have been issued without perceptibly increasing the premium on gold. These 300 millions would have been added to the resources of the Treasury without interest or cost to anybody, and even to the advantage of the national trade and industry.

Unfortunately, the State Banks were allowed not only to continue, but to increase, their issues, while the enormous expenditures for the army and navy soon emptied the Treasury. Instead of negotiating a loan by consenting to sell government stock, if it were necessary, below par, the Secretary called for more Paper Money. Congress complied, and in July, 1862, sanctioned the emission of another 150 millions of greenbacks. Over one third of this sum was to be in bills of some denomination less than $5; but fractional currency, or bills smaller than one dollar, were expressly forbidden. Thus 300 millions of national currency were

added to the 200 millions of State bank-bills then in circulation, to do the work which had been performed by only 300 millions before the war. The consequences might easily have been predicted. Gold immediately rose to a premium of 20, and, before the issue was complete, to one of 35, per cent. Specie went out of use altogether; and the inconvenience caused by the want of small change compelled Congress (July 17) to authorize the issue of fractional currency only six days after passing a law by which it was expressly prohibited. Through these small bills, nearly 30 millions of dollars were soon added to the volume of the currency, thereby increasing its depreciation. Because the prices of commodities rose as the value of money fell, a fever of speculation was generated, and those who had any command of capital were turned away from investments in government securities to all sorts of hazardous enterprises in trade. The rates of interest rose, and loans could be obtained only on usurious terms. Meanwhile the wants of the Treasury were constantly becoming greater and more imperative, owing to the gigantic character of the military operations then on foot, and the higher prices which had to be paid for personal services and for military and naval supplies.

In January, 1863, Congress authorized the issue of 100 millions more of greenbacks, in any denominations not less than one dollar; and the consequence was, within a fortnight, that the premium on gold rose to more than 50 per cent. Under the enhancement of prices thus produced, the expenditures on the war became inordinate, and means had to be devised for raising 900 millions to meet the wants of the Treasury for the current year. More currency was still the Secretary's chief reliance, because he cherished the vain hope that money would thereby be rendered so plentiful that the heavy government loans would eagerly be taken up. A new sort of Paper Money was invented for the occasion. Treasury notes were to be issued to the extent of another 400 millions, in denominations not less than $10, which should *both* bear interest at 6 per cent and be legal tender. The interest was payable in currency every six months, and the bills were to be legal tender *for their face value only, excluding the accrued interest.* The expectation was, that the notes would thus be kept back from circulation, since they could not be used as money without a loss of interest. But this novel form of irredeemable currency proved

to be the worst that was ever issued. First, it threw away the only advantage derived from issuing Paper Money at all, — that of obtaining a compulsory loan without interest. Secondly, on its first issue, and for months afterwards, it had just as much influence as greenbacks in augmenting the premium on gold and the prices of commodities; and though then withdrawn from active circulation for a few weeks, it was suddenly thrown back on the market in great quantities after six months' interest on the notes had been received, thereby causing prices to oscillate more wildly than if the currency had continued steadily in use.

In the same week in which this new form of Paper Money was authorized, Congress also passed the law establishing the National Banking system, which had been strenously advocated for two years by the Secretary of the Treasury, and would greatly increase the volume of the currency as soon as it could be put in effectual operation. Under the stimulus of these two measures, gold immediately rose to 70 per cent premium; thus showing that a dollar in paper was worth not quite sixty cents in coin. Fortunately, this very depreciation of the currency, because it much increased the actual, though not the nominal, rate of interest on United States bonds, caused the government loans to be rapidly taken up, thus supplying the wants of the Treasury and postponing for eight or ten months the threatened emission of this interest-bearing currency. This curious result was entirely unexpected by those who then had the management of the finances, though it admits of an easy explanation. "Success quite beyond expectation," says the Finance Report for 1863, "crowned the efforts of the Secretary to distribute the Five-twenty bonds in all parts of the country, as well as every other measure adopted by him for replenishing the Treasury." This surprising good fortune was attributable simply to the fact, that he actually sold the bonds at about 36 per cent discount, and paid interest on what he received for them at rates varying from 9 to 10 per cent in coin.

As far back as February, 1862, Congress had authorized the creation of a debt of 500 millions, payable in not less than five, and not more than twenty years, (hence popularly called Five-twenties,) and bearing 6 per cent interest *payable in coin*. The bonds were also to be free from taxation either by State or

municipal authority. These might be issued and sold either for coin or greenbacks "at their market value," that is, for whatever price might be obtained for them. But the Secretary preferred the easy expedients of issuing Paper Money, certificates of indebtedness, and other forms of temporary but compulsory loan, and made no vigorous effort for more than a year to dispose of the Five-twenty bonds. "Still more greenbacks!" was the cry of the official financiers; and under the stimulus thus given to gambling in stocks and wild speculations in trade, capital was diverted from investment in government securities, and during sixteen months only one third of the great loan was negotiated. Yet Mr. Fessenden's Finance Report, so late as December, 1864, argued in favor of yet more Paper Money, that "its *scarcity* in the market had occasioned no slight embarrassment in the negotiation of loans"; and that "the impetus given to trade of every description by the large and increasing wants of government required a largely increased amount of the circulating medium." It was really a matter of national shame that a First Minister of the Treasury for a great commercial and manufacturing country could be found thus ignorant of the first principles of financial and economical science.

Mr. Chase, indeed, throughout his administration of the Treasury, seems to have entertained a great dislike of selling any government stock at a price *ostensibly* below par. He preferred the indirect policy of first depreciating the currency, and then selling, at *nominal* par in depreciated paper, a stock bearing 6 per cent interest in gold; — as if it made any difference whether he sold a one-hundred-dollar bond for 64 specie dollars, or for 100 paper dollars each worth only 64 cents in coin. Throughout the four years of civil war, a period so disastrous to the finances of the country, the Treasury never issued stock at a higher nominal rate of interest than 7.3 per cent, and never sold any of it at less than nominal par. During the five months preceding July, 1863, the premium on gold varied from 40 to 72 per cent. Taking 56, the mean of these two numbers, as a rough approximation to the average premium, we have, for the average value of the paper dollar during these five months, about 64 cents in coin. For 170 millions of 6 per cent stock sold, therefore, the government received less than 109 millions, and on this amount it is still paying

interest at 9.37 per cent, and will probably soon redeem the principal at par in gold.

This was bad enough; but it became still worse a year later, when a continuance of the same policy raised the average premium on gold for some months to 140. For 100 millions of 6 per cent stock then sold, but little over 40 millions were received, and the Treasury really paid over 15 per cent interest for the loan. Still it might be urged that this was not any worse than borrowing undepreciated money, and paying for the use of it 15 per cent a year. True, the amount annually paid for interest would be the same. But the expenditures of the government — the amount which the Treasury needed to borrow — would not be the same. To depreciate the currency is to raise the price, not merely of gold, but of all commodities whatsoever. When gold is at or near par, it costs, we will suppose, 500 millions a year, besides the avails of the taxes, to meet all the exigencies of the war; and the public credit may be so low that a loan of this sum cannot be had except at 15 per cent interest. But after the end of the war, the country will be only 500 millions in debt for this year's expenditures; and the re-establishment of the public credit by the return of peace will soon enable the Treasury to obtain a loan at 6 per cent, or less, wherewith to pay off the debt incurred at exorbitant rates. But if Paper Money enough be issued to raise the price of gold to 250, the excess of war expenditures for the year will be, not 500, but 1250 millions. This sum at 6 per cent will cost just as much annually, *during the war*, as 500 millions at 15 per cent; namely, 75 millions. The public debt will then be two and a half times as great as in the other case, and no reduction of the interest will be possible. Five years have elapsed since the restoration of peace, and United States 6 per cent stock is still considerably below par in the market, chiefly because we are still using a depreciated and fluctuating currency.

It is an obvious truth that "a high rate of interest prevents an outflow, and induces an influx, of that commodity which is most convenient for transmission from one country to another, namely, gold." With gold at 170, as it was in the beginning of March, 1863, the real interest offered on the bonds was over 10 per cent. As this rate was high enough to attract both domestic and foreign capital into even a hazardous investment, the government loan

began to be rapidly taken up; and before the end of March, over two millions were sold in one day. This relieved the wants of the Treasury for a time, and also brought gold from abroad and out of hoards, so as to depress the premium on it and to lower prices generally. And the impulse being once given, the fall accelerated itself. This very depression of prices had the effect to discourage speculative enterprises, and thereby to turn unemployed capital towards the Treasury, which was still offering about 9 per cent interest. Before November, 1863, the whole loan of 500 millions had been taken up, and, what was a still more important result for the national finances, the emission of the newly invented interest-bearing Paper Money had been thus far postponed. This was the simple phenomenon which struck the officials of the Treasury with so much surprise. For a few weeks, the bonds could hardly be printed fast enough to supply the demand. But the triumph did not continue long.

As to paper currency which should both bear interest and be legal tender for its face value, not including accrued interest, its inventors failed to perceive, that even the portion of it which is withdrawn for a time from active circulation, to be kept in reserve as an investment, may still exert great influence on prices through the stimulus which it gives to speculation. As Price depends on the ratio of Demand to Supply, whatever tends to augment both the disposition and ability to purchase must enhance the Price. In the wholesale trade, purchases are usually made on credit, the buyer depending upon the resale of the goods on a future day, at an advanced price, in order to effect the payment. Such purchases are more numerous, and are effected with greater confidence, according as the buyer feels more sure that he will be able to pay, even if the price should not rise, and if he should deem it expedient to keep the goods a longer time on hand, waiting for a favorable turn in the market. But he could not afford to provide against such a contingency by keeping proper cash funds in reserve wherewith to meet the payments; for he would thus lose the interest on the whole sum reserved. But these interest-bearing legal-tender notes answered the double purpose of an investment and a cash reserve. A good stock of them might be kept on hand without expense, as a fund available against the worst that might happen. The possession of such notes, therefore, even if he hopes not

to be obliged to part with them, must increase *the purchasing power* of the merchant, and, by tempting him to increase his speculative purchases, must enhance prices. In fact, I believe they are the most efficient form of Paper Money ever invented to produce this very result. They are at once both Capital and Money.

The wants of the Treasury recurring after the 500 millions' loan had been taken up and its proceeds expended, instead of attempting to negotiate another loan, the Secretary had recourse to this new sort of currency. The form adopted was that of legal-tender notes of various denominations not lower than $10, to be redeemed in one or two years, with coupons attached for 5 per cent interest payable every six months. About 150 millions of them were issued in the autumn of 1863 and the following winter. The consequence was, as already remarked, that though partially held back from circulation for a time, while the interest was maturing, yet as soon as six months had elapsed, so that the holder could cut off a coupon, they were rushed upon the market in great quantities. Hence, 1, They inflated the currency just as much as other Paper Money; 2, They were costly, as interest had to be paid on them; 3, They caused the circulation to vary in amount spasmodically, or by jerks; the premium on gold, and the prices of other commodities, varying under their influence sometimes as much as 40 per cent in ten days. These evils became so intolerable on the expiration of the first six months after their issue, — that is, from the middle of June, 1864, — that an effort was made to withdraw the whole emission, and about 90 millions of them were actually obtained and cancelled. But as the speculative fever generated by their issue had made the negotiation of loans impracticable, the necessities of the Treasury continued, and the Secretary was obliged to replace, early in the autumn, nearly the whole quantity that had been destroyed. Then a new form of these notes was adopted. The interest was raised to 6 per cent and compounded semiannually, but made payable, together with the principal, only after the lapse of three years. After some months, of course, these could not be paid out as Money without a heavy loss of interest; but though held in reserve, as already explained, they fostered speculation, by supporting hazardous purchases, as much as if they had been in active circulation. Over 100 millions of these compound-interest notes were issued before the

end of September, 1864. Before another year had expired, over 200 millions of them were in circulation. Thus the government and the people were taxed the usurious rate of 6 per cent compound interest on these many millions, as a compensation for the privilege created by them of paying vastly enhanced prices on every commodity in the market.

For a vivid picture of the evils thus produced, consult the Chart showing the fluctuations of the premium on gold for the six months following May, 1864. Within one week we find the price of gold at 218, then at 280, and again at 226. Of course, under the stimulus thus given to prices, a mad fever of speculation seized upon the public, as violent as that produced by the South Sea bubble in England or by Law's Mississippi scheme in France. Trade became mere gambling. Every one who possessed, or could beg, borrow, or embezzle, a few thousands, rushed to the market to buy gold, stocks, commodities, — anything at any price; for an advance in gold might, within three days, give them back their investment with 30 per cent profit. Even if a fall in gold should bankrupt them, they had no cause to grieve, as they would have enough companions in calamity to keep them in countenance, and within a week they might try again. Under such circumstances, no one would lend any money to the government, although the Treasury, at what was then the premium on gold, was offering 15 per cent interest, and ultimately to repay two dollars for every one dollar received; even these inducements seemed pitiful in comparison with the rich harvests that might be obtained in the stock-market.

For any of these evils Congress and the Secretary of the Treasury had no remedy to offer except the insensate one of passing in hot haste, on the 17th of June, a bill constituting it an offence punishable with fine or imprisonment to make any bargains relative to the purchase of gold except on terms of immediate delivery and cash payment. This was an attempt, as any Economist might have told them, to put out a conflagration by pouring on it oil and turpentine. The statute merely added to the premium on gold the cost of insurance against the heavy penalty that might be incurred by speculating on its price; it raised this premium 33 per cent in just five days. The oscillations then continuing more wildly than ever, the law had to be repealed in less than three weeks after its enactment.

The signal failure of this measure seems at last to have discouraged one who had hitherto stoutly maintained his position through a long train of mishaps and disasters. On the 30th of June, with gold at 280, and pending an unsuccessful attempt to negotiate a petty loan of only 33 millions, the Secretary of the Treasury resigned. It was high time to try whether a change of financial policy might not relieve the government and the country from some of the evils which were now impending. Mr. Fessenden reluctantly consented to take the office which few were willing to accept.

Late in the summer of 1864, the very magnitude of the evil produced by the great depreciation of the currency wrought its own cure, as it had done the year before. Through its indirect effect in augmenting the rate of interest payable on bonds bearing interest in gold, it tempted foreigners to make large investments in these securities, and thereby threw upon the market large amounts of gold and bills of exchange drawn against the proceeds of United States stocks sold at Frankfort. German capitalists were willing to incur some risk in an investment which offered from 15 to 17 per cent, or nearly four times their ordinary rate of interest. The American market was thus glutted with specie and specie funds; and this produced, of course, a great decline in the premium on gold, and indirectly in the prices of all commodities which could be purchased with gold abroad. This phenomenon was rather a depreciation in the value of gold than a rise in that of the paper currency. A panic ensued. Hoards of the precious metals were again broken up and thrown upon the market, and the price of gold fell from 280 in July to 190 in October. The price of goods generally was more depressed even than that of gold, and many failures took place.

Such are the consequences of an excess of Paper Money, — excitement, feverish speculation, inordinate enhancement of prices, and then reaction, a sudden decline in the markets, and numerous bankruptcies, the whole cycle of these events being completed in less than three months. The reaction would doubtless have gone farther, if what was now the exorbitant cost of supplies for the army and navy had not compelled the Treasury to reissue the legal-tenders that had been withdrawn, and even to supplement them by the emission of another 100 millions of compound-interest

notes. The fall was thus arrested, and gold rapidly advanced again, till it reached 260 in November. The new Secretary was puzzled by this result, and, in his Report for 1864, affirmed that "the solution of the problem may be found in the unpatriotic and criminal efforts of speculators, and probably of secret enemies, to raise the price of coin"; and as if determined to repeat the former errors, he advised the passage of "a law providing for the exemplary punishment of combinations for such a purpose." As to the nominal "sales of gold upon time," which are here complained of, they are nothing more than betting upon the price of gold at a future day; and to attribute to them any influence either way upon the depreciation of the currency is about as absurd as it would be to accuse those silly persons who bet upon the future state of the weather of a conspiracy to bring about a drought or a deluge. As Mr. Newcomb remarks, the idea seems to be "that every one bets against the government, and no one for it; or, at least, that he who bets for it is powerless. But for every bull there must be a bear; the bear will have as great an interest in the fall as the bull in the rise," and his exertions for this end will be as strenuous and effective as those of his opponent. "Bull and bear are, in fact, equally powerless to effect any great or permanent change in the price of so universal and easily transportable an article as gold. At best, they can only foresee the change. The stock-market registers the price of gold, but does not fix it."

This history of the emission of the Paper Money need not be carried farther. It only remains to show that the facts corresponded with the theory, as to the effects which an excessive issue must have upon the loan-market. It has been shown, that the very excess of the currency which raises the prices of commodities *is wholly absorbed in maintaining this rise*, so that, although there are twice as many dollars in circulation, there are also twice as large exchanges to be effected by them, no surplus then remaining for loans. Moreover, the quantity of Capital is certainly not augmented by the excessive issue of mere engraved bits of paper; but the direction of the Capital which was previously in the market seeking investment is changed; it is diverted from government loans to hazardous speculations in trade and stocks, being attracted by the chance of higher profits. The sure prospect of a contraction of the currency operates, so to speak, *at both*

ends, or by a double chance of profit, to induce every person to exchange any form of merchandise, or other property, into an investment in a government loan; since he will thereby both avoid an otherwise inevitable loss on his merchandise, and secure a gain on his United States stock. Take, for instance, the Treasury notes bearing 7.30 per cent interest in currency, which were popularly called Seven-thirties. We will suppose that a merchant holds $50,000 worth of manufactured cotton at a time when gold is at 200. The certainty that the price of gold would fall 20 per cent in a week would make him eager to dispose of his goods, in order to avoid the threatened loss of $10,000 by the corresponding fall in the price of cotton. Moreover, the real or gold value of the interest to be received for his $50,000 invested in Seven-thirties, instead of being only $1,825, as it would be with gold at 200, would be raised, by this decline of gold relatively to Paper Money, to $2,028. The difference between these sums is $203 of annual income *in gold*, representing about $400 income *in currency;* and this amount, capitalized at 6 per cent, represents a principal of $6,666. Adding this gain to the loss avoided by the sale of the cotton, we have $16,666 of gain, or avoided loss, as the inducement offered, by a *foreseen* decline of 20 per cent in gold, to sell out merchandise and invest in government securities.

On the other hand, the expectation that gold would very soon *rise* in value 20 per cent would tempt the dealer to hold the cotton in order to realize on it a profit of $10,000; while he would also be deterred from buying bonds, by perceiving that the gold income from them would decline from $1,825 to $1,460, the difference between these incomes representing (calculated as before) a capital of $12,166 in currency. Hence this *expected* rise of gold would hold out the lure of $22,166, saved or gained, as an inducement to keep the cotton instead of buying government stock.

Observe, however, that these calculations can be made, and these inducements will exist, *only when we are enabled to foresee with reasonable certainty* that the rise or fall in gold will take place. Anybody can be wise after the event, and can perceive how he *might* have made a great deal of money; but such wisdom does not count for much in financial operations. But the fact

that the government is avowedly expanding the currency by fresh issues of. Paper Money does afford full assurance that the price of gold will rise; while the knowledge that the government is contracting it, by cancelling legal-tender notes, must satisfy every one that this price will fall. Hence, loans will be readily taken up in the latter case, and will be declined in the former.

These conclusions and calculations are fully confirmed by the facts recorded on the Chart. At any period when this shows that the price of gold was advancing rapidly, or, being already high, was oscillating much, we shall find that loans were obtained by the Treasury either with great difficulty, or not at all. But when the gold premium was falling, or had recently suffered a great decline, then public stocks advanced, and subscriptions to new loans were quickly filled. Look, for instance, at the summer of 1864, when the price of gold had shot up, between May and July, from 180 to 280. At this time, the subscriptions both to the 7.30 and the 10–40 stocks (the latter being payable in not less than ten, nor more than forty, years) were reduced to a mere fraction of their former amount, and a proposed loan of only 33 millions had to be withdrawn because there were no bidders. But in the next September, when gold fell to less than 200 again, subscriptions steadily increased, and, by the 1st of October, they amounted to over a million a day. The action of Secretary Fessenden, in throwing upon the market at this critical time over 100 millions of additional legal-tender compound-interest notes, sent the premium up again, in November, nearly to its former highest point, and once more the loans found but few bidders; and this, too, in spite of a long train of uninterrupted military successes. A few months later, commenced that unparalleled fall in the value of gold, which, in six weeks, without any appreciable harm to the mercantile world, carried the country over more than half the interval, which, on the 8th of February, 1865, separated it from a resumption of specie payments. On that date, the premium was at 114; while on the 24th of March, it was at 50. During this interval, the government borrowed larger sums, at lower rates of interest, than in any period of equal length during the war. The decline in the value of gold, continuing to the middle of May, caused that marvellous subscription to the Seven-thirties, a mere currency-bearing loan, which, in four or five months, poured 830

millions into the Treasury, and relieved the Secretary from all necessity of borrowing another dollar before the opening of a new year.

Hitherto we have considered the effects of an excessive issue of Paper Money only upon the morality of trade on a large scale, and upon the finances and credit of the government. It has a still more considerable and pernicious influence on the interests and the rights of the bulk of the community, who, as mere producers and consumers, are not directly concerned in the wholesale transactions of commerce, or in the complications of the stock-market. The practical matter for them was, that the prices of all articles of consumption rose rapidly from the time when greenbacks were first issued in excess, till they were doubled, and at last nearly trebled, in the summer of 1864, when the circulation considerably exceeded 600 millions, or was more than twice as much as the mixed specie and bank currency had been before the war. This increase in the cost of living was greater than the advance in the price of gold, — greater even than could be accounted for by the heavier rates of taxation. In December, 1865, Mr. McCulloch, then Secretary of the Treasury, observed that "rents, and the prices of most articles for which there has been a demand, have been, with slight fluctuations, constantly advancing from the commencement of the war, and are higher now, with gold at 47 per cent premium, than they were when it was at 185." Even five years after the close of the war, when the premium on gold had fallen to 20 per cent, the necessary expenditures of a family, including house-room and groceries, continued to be at least 75 per cent larger than in 1860; and not more than half of the excess was fairly attributable to increased taxes. Wages and salaries, moreover, did not advance in the same ratio with the prices of commodities; during the war, indeed, except in a few employments which were exceptionally stimulated by the demand for the materials of war, they did not rise half as high even as the premium on gold. In all the relations of Labor with Capital, this long experiment of the use of Paper Money has resulted sadly to the disadvantage of the former. In the pithy language of Mr. Wells, it has made "the rich become richer, and the poor poorer."

The suspension of specie payments made gold a mere commodity, the price of which, like that of other commodities, de-

pended upon the ratio of the demand to the supply; and, owing to peculiar circumstances, ever since 1861, the supply of gold has been relatively greater in the United States, and the demand for it relatively less, than in any country in the world, so that it has been with us the cheapest of all commodities. The demand for it has been less, because it has not been used at all as money in the ordinary transactions of trade; and the comparatively slight use of it by the government in the receipt of duties upon imports, and in the payment of interest upon bonds, has been abridged by lodging it in the Sub-Treasury, and effecting transfers of it by certificates of deposit. The supply of it has been greater, because the larger portion of what there was in the country at the end of 1861 was retained here, and hoarded, throughout the war, by the timidity of the capitalists who were its owners; because an additional amount of it was obtained every year from internal sources, such as California and Nevada; because immense quantities of it were brought hither from Europe, or lodged there subject to American orders, in return for United States securities, and State and railroad bonds, sold abroad; and because it is the most tempting of all subjects for speculation, owing to the ease with which large amounts of it are handled and transported, its freedom from all risk of injury while kept on hand, and the widely varying demand for it, at different seasons of the year, for the payment of duties or shipment to other lands. This excess of supply was not relieved, in the usual way, by additional imports attracted by the higher prices of commodities in this country, because gold, being demonetized here, did not directly affect prices in the markets, and because a high tariff, almost prohibitory on many articles, had much restricted foreign trade. Gold, therefore, has been for eight years the cheapest of all commodities in this country, and therefore the premium on it has very imperfectly represented the depreciation of the currency. Only in this way can we account for the sudden and immense decline of that premium in the spring of 1865, though the prices of other commodities were then but little affected, and the paper currency, far from being contracted, was actually increasing in amount. There are now (1870) about 700 millions of paper in circulation; yet prices generally are but little lower than they were four years ago, when we had over 900 millions of currency.

Various causes may be assigned why the markets are not affected immediately, or in the same ratio, as the amount of money in circulation. Time is required for a fresh issue of Paper Money to permeate all the channels of circulation, to reach all the markets of a vast country, and raise prices equally everywhere. Still more time is needed for prices to fall again when the currency is contracted, because the holders of goods, having more or less capital at command, are enabled to stand out against an immediate reduction in value of their stocks on hand, hoping that the previous equilibrium may be restored. There is a *vis inertiæ*, especially in the retail markets, which is not sufficiently taken into account; competition is the equalizing power, and competition cannot be quickly organized, or quickly be made to bear, because, frequently, long and slow processes of production or importation must previously be accomplished. As already remarked, prices and currency are not always at a level, but are always *finding* their level, and often have to go far and travel slowly in order to reach it. Prices are adjusted for any one time, not so much by what is, then and there, the ratio of the demand to the supply, as by the opinions of dealers respecting what the supply and demand will be some weeks or months ahead. An augmentation of the currency, if foreseen a few weeks before its occurrence, may be so far anticipated and exaggerated in its effect upon the markets, that a very considerable rise of prices may take place some time *before* the currency is increased at all; and then, owing to the reaction of disappointed hopes, the real increase, when it comes, may be contemporaneous with a considerable fall in prices.

The relative value of particular commodities is often affected by special causes operating on them alone, wholly irrespective of the excess or deficiency of the currency. Thus, in the United States, breadstuffs are naturally and inevitably produced in excess, so that, as there cannot be two prices for the same commodity, their value in the home market necessarily depends upon the foreign price; that is, on what can be obtained for that portion of the crop which must be sold abroad. Hence the price of grain and many other farm products has never, during the last eight years, varied proportionally with the excess of the currency, or with the prices of other commodities. The agriculturists, there-

fore, who constitute full one half of our working population, have had more to pay and less to receive, ever since the suspension of specie payments, than any other class of producers. Their necessary expenditures for implements, repairs, wearing apparel, groceries, taxes, and the like, have been more than doubled, while the receipts from the sale of their crops have been but little increased.

A case of still greater hardship is that of the numerous class who are entirely dependent upon fixed incomes of moderate amount; such as annuitants, mortgagees, persons who had let real estate on long leases, depositors in Savings' Banks, and recipients of dividends on bonds of old date, and on other permanent investments. The number of dollars which each of these persons annually received was strictly defined and limited; but the value of each of these dollars was arbitrarily reduced one half by the excessive issue of Paper Money. All salaried persons, also, including clerks, overseers, teachers, and clergymen, suffered nearly equal wrong. As the demand for their services was not increased, and they could not go into other and better-paid employments, because their education and habits had unfitted them for a change, their salaries during the war were seldom increased at all, and never rose high enough to correspond with the increased cost of living. The injustice to both these classes was aggravated by the consideration, that the heavy and wrongful burden thus laid upon them, amounting in many cases to a privation of half of their incomes, produced no benefit to the government and the cause of the people, but served only to swell the gains of speculators in stocks and merchandise.

Prices are enhanced, not merely by the depreciation of the currency, but by its fluctuations in value, which impede legitimate enterprise in trade and manufactures, or allow it to proceed only under a heavy cost of insurance against the uncertainty of the returns. The price paid by the consumer must be large enough to compensate every party to the production and sale of the commodity for the contingency of a general fall in values while it is a part of his stock on hand. The number of hands through which the article must pass before it reaches the consumer, and the length of time required for the transit, are often so considerable, and the chances of loss meanwhile, through the instability of the

markets, are consequently so great, that none will engage in the business but those who are tempted by the prospects of enormous gains, and who do not fear the disgrace of bankruptcy. More houses and ships are needed, for instance, since the construction of them was almost entirely suspended during the war; yet only few are begun, because the cost of iron, lumber, and other materials, is still so great, and it is hoped or feared that they will be cheaper a year hence. The consequence is, that rents are inordinately high, foreign ships monopolize the carrying trade, and carpenters, masons, shipwrights, and other artisans either cannot find employment, or must submit to work at lower wages. Books command inordinately high prices, yet only few are printed, not only because the cost of manufacture is very great, but because the price of the book may fall one half before it can be completed. How can any prudent person engage in any large transaction of commerce, — for example, the importation of goods from a distance, — the returns from which must be delayed for many months, when he has no means of determining with certainty that prices may not be elevated or depressed 50 per cent within a fortnight?

By throwing away the common standard of value, we have lost the corrective influence upon our own markets of the general market of the world. An almost prohibitory tariff is needed to check excessive importations, because the risk and cost of home manufacture are so much enhanced. Prices here are no longer adjusted with close reference to their level in other countries, as goods cannot be imported or exported soon enough to take advantage of any great change in their relative values. Trade thus becomes a lottery; one can only engage in it blindfold, with a sort of stoical and fatalistic resolution to abide the result, whatever it may be. The question between great wealth and bankruptcy is virtually determined by shutting the eyes and throwing the dice. Though such a mode of transacting business is condemned by every principle of sound morality, there is a strange fascination about it for a certain class of minds. The pleasurable excitement of a game in which property, reputation, and even life, are staked against the chance of a great fortune, will outweigh with many persons all that can be said against it. Recent events go to show that the gambling spirit has pervaded and corrupted the commercial community

in our large cities to an extent never known before. It is evident that the state of the currency, since the suspension of specie payments in January, 1862, has contributed more than any other single cause to this lamentable result. To this extent, the evil is within the reach of legislation; and any act which will give stability to our markets, by prohibiting the further use of any currency not immediately redeemable in coin, will do more to check it than all the terrors of the penitentiary or the gallows, — even if there should be virtue enough left in the community to apply these latter remedies.

A still heavier discouragement to legitimate commerce results from that uncertainty about the fulfilment of contracts, which is caused by the fluctuating value of the dollar. Good faith in all mercantile transactions appeared so important to the founders of our government, that they inserted a clause in the Constitution of the United States, declaring that no State shall pass any law impairing the obligation of contracts; and the strictness with which this prohibition has been enforced by the courts of law has done more than anything else to establish their reputation for equity, and to create confidence between man and man. But how wide departures from equity are now sanctioned by a custom of eight years' duration, and by the act of Congress which made depreciated paper dollars a legal tender for the payment of any debt, whenever or however contracted, appears from two imaginary cases, like which there have been plenty of real ones, which are supposed by Mr. Newcomb to have occurred in 1864.

Before the suspension of specie payments, "two hundred mechanics each put $100 into a Savings' Bank. The Savings' Bank afterwards loaned this $20,000 to a ship-builder, who employed it in building a ship. He sends the ship to England and sells her for $22,000 in gold, making ten per cent legitimate profit. By every principle of justice, $20,000 of the money belongs to the Savings' Bank. But now the legal-tender clause comes in, and declares the builder relieved from the debt on payment of 20,000 paper dollars. He therefore buys these paper dollars with perhaps $8,000 in gold, and keeps the additional $12,000 for his own private use.

"A professional man, dependent entirely on his income for support, insured his life, in order that his family might not be left penniless at his death. The Life Insurance Company loans the

money to Mr. Shoddy, who invests it in manufacturing capital, and, with the rise in gold, finds both his capital and profits apparently increase in a corresponding ratio. When his debt is due, he finds that he can sell one half his stock for greenbacks sufficient to pay it, he retaining the other half, though it also rightfully belongs to the Insurance Company." Then the professional man dies, and his widow and children receive from the Company just half the value which it had covenanted to pay them.

And such acts are still declared by Congress and the courts of law — not as yet, however, by the Supreme Court of the United States — to be legal and equitable proceedings!

When the depreciation is considerable, an immediate restoration of the specie standard, even if it were possible, would be inexpedient and unjust. A large sum in gold would be needed to redeem the outstanding circulation; the sudden and considerable fall of prices would distress merchants and producers; and debtors would suffer as much hardship and wrong as creditors did when the value of money was suddenly diminished. The reversion to specie payments, therefore, ought to take place gradually, that it may cause no greater or more sudden alterations of values than those to which the community must be exposed so long as the use of Paper Money is continued. An admirable plan for this purpose was devised by Mr. Ricardo, and adopted by Mr. Peel and the English Parliament in 1819, as a means of providing for the restoration of specie payments by the Bank of England. The Bank was required immediately to redeem its notes *in bullion*, paying for them at first, however, a price but little in advance of what was then their market value as indicated by the premium on gold, but making a small addition to this price every few months, till the notes should thus finally be brought up to par with specie. This scheme proved so successful, and the disturbance of the markets created by it was so slight, that the Bank of its own accord, with the general assent of the mercantile community, anticipated the period of full resumption, and began almost at once to redeem its notes at par.

In January, 1870, the premium on gold in this country was 20 per cent, so that the value of the paper dollar was a little over 83 cents in coin. At the same time, there were over 100 millions in gold lying idle in the Sub-Treasuries, and probably another 100 millions in the banks and the hands of the people. Congress then

might safely require the Treasury and the banks to redeem in specie all the paper currency that should be offered at the rate of 85 cents for the dollar, and to advance this price 5 cents on the dollar every six months. Full specie payments would thus be restored in eighteen months; and, meanwhile, the value of the currency would be nearly as free from injurious fluctuations as if the resumption were complete and immediate. There could be no sudden or considerable demand for gold, as every one would see that delay in the presentation of the notes would be compensated at the rate of 10 per cent a year. Confidence in trade and stability in the markets would be at once established, since contracts could be made with as full a knowledge of what the value of money would be when the time of settlement came, as if the currency were already convertible into specie at its full nominal value. Neither debtors nor creditors could be harmed as much as they are by the continuance of the present state of things; since the maximum of change in the value of the dollar would be five per cent every six months, which is not half as great as was the fall in gold in less than two months, in the autumn of 1869, or one tenth as great as the fall in the spring of 1865.

CHAPTER XVI.

THE NATIONAL BANKING SYSTEM.

THE law establishing the National Banking system throughout the United States was passed by Congress on the 25th of February, 1863. It may be doubted whether a period in the midst of a terrible civil war, a derangement of all the machinery of commerce, and a general confusion of the finances, is a fit time to try experiments in banking and to revolutionize the whole credit system of the country. An experiment made under such circumstances proves nothing. Whether its immediate results are seemingly favorable or adverse, we can never tell whether they are the proper consequences of the new system, or of the wholly exceptional state of affairs under which it was first put in operation. Besides, such times are not favorable for deliberation, for collecting the

facts and arguments by which it must be judged whether it is expedient even to make the trial. If, indeed, the scheme were only a war measure, intended only to bridge over the pressing difficulties of the hour, and to die a natural death when the termination of hostilities should restore the affairs of the country to their old footing, or place them, at any rate, on something like a permanent basis, this objection would not be valid.

Unluckily for the pretensions of the bill as one of immediate urgency, an entirely novel banking system for the whole United States is an invention which, from its very nature, cannot pass into immediate use. In this case, it had hardly begun to be organized, though already over two years old, when the war was over. A great war is the very time for making trial of newly invented cannon and iron-clad ships; but it is no more a proper season for experimenting with a new banking system than with a new religion. Yet because introduced at such a period, and pressed, though without any good reason, as a war measure, it was passed almost without debate. The responsibility of the measure rests almost exclusively upon the Secretary of the Treasury, who urged the scheme in three successive annual reports, but in the last one was obliged to confess, that, although nearly ten months had elapsed since the passage of the law, not a dollar of the new currency was yet ready for emission.

The leading features of the law were, the transfer of the whole banking system of the country from the control of the State legislatures to that of Congress, and the issue by the banks, and for their own profit, of 300 millions of dollars of a uniform national currency, secured by pledge, and deposit in the Treasury, of a somewhat larger amount of United States stocks or bonds. Any number of persons, not less than five, may form a banking company, the stocks pledged by them must equal at least one third of their capital, and the total of their circulating notes must not exceed their capital, which must be at least $ 50,000 in small towns, and at least $ 100,000 in those of larger size. Each stockholder is personally liable to twice the amount of his shares for the debts of the company. The existing State banks were encouraged to reorganize themselves under the new scheme, and the extinction of their former local currency was insured by the imposition upon it of a prohibitory tax of 10 per cent, to take effect after the

1st of July, 1866. The alleged advantages of the scheme were the substitution of a uniform and well-secured national currency, in place of the heterogeneous local currency of the State institutions, and the supposed additional facilities given for the negotiation of national loans.

To one familiar with the history, at least with the unhappy end, of the two Banks of the United States which, at different times, were established and existed in this country for long periods under national authority; especially to one who remembers the long bank-war, as it may be termed, which raged from 1832 to 1842, the fierce political dissensions and commercial disasters to which it gave rise; — to one who remembers all this, the project of taking away all the banks in the country from the authority of the individual States, and placing them under the control of Congress and the Secretary of the Treasury, will not appear a very promising one. And the proceeding will appear still more ominous when it is remembered, that each of the former banks of the United States existed under a specific charter from Congress, which was unalterable during the years of its continuance, so that, for this period at least, the institution was free from legislative interference; whereas the National Banking system, declared in the act itself to be subject at any time to amendment, alteration, and repeal, was tinkered in some of its main features when it was but little over a year old, tinkered again in less than a year more, and is likely to be a whetstone for Congressional debate and intrigue, and an object for the caprice of every Secretary of the Treasury, for many years to come. Carefully enshrined in the system is the worst feature of the exploded "pet-banks," the authority granted to the Secretary to make his own selection of those which are to be depositaries of the public money. Of all evils which may befall banking institutions, in reference to the interests, either of their stockholders, or of the mercantile community at large, for whose benefit they are created, the most to be deprecated is frequent legislative interference. Here, if anywhere, the Political Economist is entitled to repeat his favorite maxim: *Laissez faire*, — let things be. Banks are governed too much. Better even a bad system than the perpetual change which amounts to no system at all.

Since 1842, questions about banking having ceased to be agitated in Congress, politicians no longer waged war upon the subject,

and each State quietly developed and improved its own system, chiefly under the guidance of merchants, bankers, and other practical men. These systems, in the main, worked well; the banks in New England, the Middle, and even the Southern, States were generally prosperous and well-conducted institutions, and recovered, with quickness and ease, even from commercial storms so terrible as that of 1857; while the loss to the public from the ultimate failure of one or two of them to redeem their outstanding circulation — a loss which forms the only sound excuse for legislative interference — was too trifling to merit notice. The banks of the Northwestern States, it is true, were not so prosperous, the evils there being a want of capital, a lack of experience, and an excess of the spirit of speculation, — evils which rather created the faults in bank management, instead of being created by it. But even in Illinois and Michigan, as there is every reason to believe, the defects and errors would gradually have cured themselves, and a system would have been established at no distant day, the working of which would have afforded no just ground of complaint.

True, the systems were not uniform; even the banking currency was not wholly uniform. The banks of New York differed in some important respects from those of Massachusetts; the banks of Louisiana and Virginia were unlike either. But I am by no means sure that this want of uniformity was not rather a merit than a defect. Banks are the natural outgrowth of the wants of the mercantile community among whom they have their origin, and answer their purpose best when they conform most closely to the peculiarities of the commerce therein carried on. Like political constitutions, if eminently successful, they are not made, but grow, by a natural process of self-enlargement and improvement. External authority rudely brought to bear upon them only mars and twists this otherwise healthy development. The greatest improvement ever made in practical banking in this country — the Allied Bank or Suffolk redemption plan — was devised and put in successful operation about fifty years ago, without any aid from the legislature, by half a dozen Boston merchants. It soon lived down all opposition, quietly extended itself by general assent over all New England, was copied and carried into New York about twenty years ago, and a bungling

attempt was made to engraft its main features upon this new National Banking law. The Clearing-house plan was another of these spontaneous additions and improvements from within, made some fifteen years ago, without asking leave or help from State legislature or Congress. The State bank systems, dissimilar as they were from each other, in the main worked well, because each did its own peculiar work as the wants of its locality required; because they tended to keep the rates of discount low and equable; because they transacted the exchanges between distant parts of the country with facility and at moderate cost; and because the discredit and utter bankruptcy of any one member of the system was a comparatively rare phenomenon, and, for the very reason that the unlucky establishment had only a local character and influence, caused no widely spread disaster.

As to their want of uniformity, let it be remembered that in Great Britain, where the subject of banking has been longer studied, and, on the whole, more successfully worked out in practice, than in any other country in the world, no attempt has been made to pare off all local peculiarities and reduce all the banks to the dead level of one plan. The Scotch banks have strongly marked features of their own, which work admirably well in Scotland, where alone one-pound notes are allowed to circulate. The English provincial banks differ from them in many respects, do not issue notes below five pounds sterling, and cannot extend their operations into the metropolitan region, consisting of London and a district 65 miles in radius around it, where the Bank of England reigns alone in its privilege of issuing bank currency, except a trifling amount by a few private banks, though the great Joint-Stock banks maintain an active and successful rivalry with it in the two functions of Deposit and Discount. The Irish banks, also, have their distinctive features and privileges, and no attempt has been made to assimilate them to those in other portions of the empire.

Now the great advantage of these local peculiarities is, that the local currencies stay at home; bank-bills circulate only in the neighborhoods where those who receive them are well acquainted with the character and management of the issuing institution, and can at any time obtain specie for them by presentation at its counter. The same beneficial consequence resulted from that heterogeneous character of our State bank currency which Secretary

Chase complained of. We all know that, under this system, as a general rule, people received and paid those bills only which belonged to the immediate vicinity, and that each bank paid out only its own bills. Hence, if specie was needed for exportation, manufacture, foreign travel, or other use, it was hardly necessary to do more than to cross the street in order to obtain it in exchange for bills. The Suffolk Bank system was the efficient guardian of this excellent feature of local circulation. Each bank was kept on its good behavior by the constant reflux of its own bills, though its domicile was some petty village on the border line of Canada.

But a mere theorist is known by nothing so quickly as by his rage for uniformity. The variety of which Nature is never weary, the cast of countenance and character which she never allows to repeat itself, the adaptations to local peculiarities which one who is unfettered by system almost unconsciously makes, are an offence in his nostrils. He would reduce everything to the same dead level, face answering to face as in a mirror. Over the whole of our vast country, though one great portion of it is exclusively agricultural, another chiefly commercial, and a third largely manufacturing; though one part has an excess of capital, and another a great deficiency of it, — all the banks must be of the same pattern; at least one half of their issues must be proportioned, not to the wants of trade, but to the representative population; they must issue bills struck on the same paper and from the same engraved plate, (thereby giving an immense advantage to the counterfeiters;) and all these issues must be based on one sort of security, — United States stocks and bonds lodged in the National Treasury. In case of the failure or discredit of any portion of such currency, the bill-holders must look for indemnity, not to the banks which issued it, but to the Treasury of the United States, which, at such times and in such manner as may suit the convenience of its Secretary, must redeem the discredited bills out of the value of the stock deposited.

Of course, the bills are really all made, issued, and redeemed, though in a roundabout manner, by the Treasurer of the United States; but for some inexplicable reason, all the *profits* of such issue are *given away* to the banks. Then the people, who are the bill-holders, and at whose risk and cost this whole machinery is run, though three fourths of them have no occasion ever to deal

directly with any bank, are not interested at all in pushing back the circulation upon any one of the issuing institutions, but accept and pass the bills precisely as if they were "greenbacks," never heeding the rather indistinct announcement on the face of the note, which refers the responsibility and profits of its issue to some obscure village, perhaps a thousand miles distant.

True, the machinery is provided for the redemption of any bank-bill, not only at its own counter, but at some one of seventeen principal cities in the country, and ultimately at the city of New York. But then it is nobody's interest to put this machinery in motion. Formerly, under the State bank system, the bills naturally circulated only near their birthplace; for the ultimate place of redemption, and the only real responsible party, were found at the bank's own counter. Then this bank had an interest in preserving its monopoly of its own district, by sending all other bills out of it, which it did easily through the Suffolk or Allied Bank plan. It received any bills, if not of too remote a locality, but paid out only its own. Under the National Banking law, the ultimate place of redemption is the Treasury at Washington, and the only really responsible party is the Treasurer of the United States. The bills, therefore, have no local habitation, only a local name, which might just as well be erased. New Hampshire bills circulate as well as any in Texas; Texas bills do well enough in New Hampshire. Each bank may pay out its bills on the morning after it receives them from the Comptroller, with a comfortable assurance of not seeing more than a stray one or two of them again for a twelvemonth. This is uniformity with a vengeance, pleasant for the stockholders of the bank, but not very agreeable for the public.

Still it may be said that here is no real ground of complaint, for it is the very essence and excellence of the system that one bill shall be as good as another anywhere. Let us see. A depositor once had occasion to have a small check cashed at a bank which never, under the old system, paid him anything but its own bills. This time, it paid him four bills, one from some town unknown to him in Pennsylvania, a second from some place equally unknown in Michigan, a third from New York, and the fourth was an old State bank-bill. Now the National Bank-bills, though legal tender to and from the United States, except for the payment of duties or interest on national stocks, are not legal tender between

man and man. Suppose the person had occasion for some greenbacks, which, at present and for some indefinite time to come, are "lawful money," in order to make a tender for the discharge of a debt. His own local bank is not bound to obtain them for him, for he has none of its own bills to present for them. He must write to some friend, if he can find one, either in Pittsburg or Philadelphia, to another at Chicago, to a third at Albany or New York, and ask them to present these bills for redemption at the proper places; and then, after considerable delay, and some expense in writing letters and for postage, and some risk in transmitting money by mail, he will receive lawful money in exchange for his little share of Mr. Chase's uniform National Currency.

But the most extraordinary fact respecting this banking law remains to be mentioned. As we have seen, the principal reasons alleged for its enactment were the advantages of "uniformity in currency, uniformity in security," and exclusive control by the national government. Now the notorious fact was, that when this law was first enacted, the United States, for the first time in their history since the Revolutionary war, already possessed a superabundant uniform National Currency, — namely, the "greenbacks," — issued by the Treasury, exclusively under the control of the Treasury, legal tender between man and man, (which the National Bank-notes are not,) and free from the great fault just pointed out, of having a local name, and yet no proper local habitation. In fact, the only fault ever found with this "greenback" currency was, that we already had too much of it, that it had been issued in excess, and had consequently depreciated, the market price of gold, when the new bank law was passed, being $ 1.70. The law authorized the emission of 450 millions of these "greenbacks," and over 300 millions of them had already been issued. They possessed the immense advantage of being equivalent to a loan from the nation to the government without interest, thereby saving the necessity of raising additional loans to this amount, at an annual charge of 25 or 30 millions. They filled up, and more than filled up, the gap caused by the withdrawal of specie after the suspension; and being legal tender, which the State bank-notes were not, they were generally preferred by the people, throughout the length and breadth of the land, to those notes, and were necessarily received and paid out by those banks themselves.

Apparently the Secretary thought these advantages were too great to be monopolized by the government, even in that hour of her sore trial and great necessity; that the premium on gold was not high enough; that the prices of commodities generally were not sufficiently inflated; and that the National Treasury could still bear the additional burden of supplying the army and navy at prices 40 or 50 per cent higher than ever. Absurd as this supposition must appear, I know not on what other line of argument his policy can be defended. After earnestly pressing the measure upon Congress in two successive annual reports, he succeeded at last, by sheer importunity, in inducing that body, almost without debate, to pass the law, February 25, 1863, creating an indefinite number of new banks without destroying the old ones; giving away to these new creations the right to issue, *for their own profit*, 300 millions of so-called National Currency, based on the credit of the United States, to be added to the 450 millions already authorized of "greenbacks," and to the 147 millions then existing of State bank circulation, making a formidable total of 897 millions of Paper Money to supply the wants of the loyal States alone, the circulation of the whole United States before the war, specie included, having been much less than half of that amount. Who can wonder that, about sixteen months after the passage of this law, or as soon as a comparatively small number of the new banks could get into operation, the market price of gold rose to 2.80? To adopt the form of an old criticism, I can conceive of a financier running so fast as to dash himself against a stone wall, which, unexpectedly to him, barred his passage; but it is hard to imagine one deliberately building such a wall, for the express purpose of knocking out his own brains against it. And yet we find the next Secretary of the Treasury, nearly two years after the first enactment of the bank law, and after he had added about 160 millions of legal-tender Treasury notes to the enormous aggregate just given, plaintively observing that, "notwithstanding the apparently large circulation of Paper Money issued under the authority of the various acts of Congress, its scarcity in the market has occasioned no slight embarrassment in the negotiation of loans." Surely, a very moderate knowledge of the laws of the currency and finance might at least have prompted a suspicion, that not "the scarcity," but the superabun-

dance of Paper Money in the market produced this embarrassment; that it did so by creating an enormous inflation of the prices of all commodities, thereby both nearly doubling the amount of loans which it was necessary to raise, and, by increasing speculation in every branch of commerce, raising the rates of interest, and making it more difficult to obtain any loans at all.

One avowed purpose of the new system was to get rid of the old State banks. If the object had been to take away from these institutions, at least during the war, their power of issuing their own notes as currency for their own profit, I have already intimated an opinion that the measure would have been both just and highly expedient. Out of the three functions commonly exercised by our American banks I have shown that one, that of Circulation, is not necessary for their existence, and does not properly belong to them, but to the whole people, by whom, and at whose risk, this form of currency is used. Still further, these banks, by originating the suspension two months before Congress followed their example, had forfeited every shadow of a claim to be permitted still to use their own notes as money; they had thereby converted their Circulation into true "bills of credit," or Paper Money, which the Constitution expressly prohibits any "State," or State institution, from emitting; while this express prohibition, through what the lawyers call a negative pregnant, impliedly authorizes Congress to make such issues. It would have been perfectly right, therefore, to put a prohibitory tax upon their circulation, thereby driving it out of use altogether, and so creating another vacuum in the currency, to the extent of at least 150 millions, which Congress might have filled by an additional issue to that amount of greenbacks, without depreciating the currency any further. The whole profit derivable from this source belongs to the people in their collective capacity; and in the great struggle for national existence which was then pending, it was strictly equitable for the people to exercise this right, so far as it could do so, without compelling individuals to break their engagements by debasing the currency. The Bank of England pays the government 64 per cent of the net profits on its circulation.

But Congress, under the guidance of the Secretary, preferred to throw away this great advantage altogether, to institute the new

banks by the side of the old ones, to make the former a free gift of 300 millions of currency, and merely to hold out this inducement, and as many others as possible, to persuade the State banks to reorganize themselves upon the new footing. The bait was not readily swallowed, and, the process of transformation proceeding very slowly, the law was tinkered again and again, and some of its worst present features introduced into it, solely in order to overcome the instinctive reluctance of the old institutions to place themselves on the new and rickety foundation which was set before them. Thus, the original law required one half of the 300 millions of circulation, as I have already said, to be apportioned among the States and Territories in proportion to their representative population. But the process of converting State institutions into National ones not going on rapidly enough, nor in any proportion to the census, this restriction was struck out of the new version of the law, passed June 3, 1864; and then, reconstruction proceeding faster, it was re-enacted in the winter of 1865.

The next change was more important and injurious. The first law forbade the circulation of any notes of a smaller denomination than five dollars, — a very salutary prohibition, because it is the small-note currency which is most in use by the body of the people in retail purchases, so that it stays out longest, and is most efficient in inflating prices. But, of course, this restriction was unpopular with the State banks, whose issue of small notes had formed the most profitable portion of their business; and therefore it was repealed by the law as amended in June, 1864. But the Comptroller of the Currency — intentionally, I suppose — was very dilatory in making ready any amount of these small notes for emission until the inconvenience created by the scarcity of them became so great, that he was compelled to hurry the work, in order to drive out those still lingering from the old State bank issues.

The limitation remains, however, that not over one-sixth part of the circulation shall consist of these small notes; and, *after the resumption of specie payments*, none shall be issued of a lower denomination than five dollars. But what is this last provision worth? After we shall have recovered our specie standard, there will be, of course, no danger of the inflation of prices, which is the evil now complained of as increased by the small-note cur-

rency. The law sanctions the issue, then, as long as it can do harm, and considerately forbids it after it has become innocuous. Besides, it is plain that this enactment unites the interests, and will combine the efforts, of all the National Banks to oppose and delay as long as possible the resumption of specie payments, since that step will at once deprive them of the most profitable portion of their issues, and compel them to provide a much larger stock of specie than would otherwise be necessary, in order then to redeem these small notes.

This leads me to consider generally the comparative willingness and ability of the old State banks, and the present National Banks, to return to the specie standard. Secretary Chase, in his report for 1863, was obliged to confess, that "notwithstanding the suspension of specie payments [one year before] by the banks of the Eastern and Middle States, they show a larger reserve of specie at the beginning of the present year than at any previous period." In fact, the returns made on or near January 1, 1863, show that these banks then held 64 millions of specie against less than 148 millions of circulation, or over 43 per cent. So far as they were concerned, then, they were at that time abundantly able and ready to resume specie payments. But the Treasury of the United States was not ready, and is not ready yet, though the war ended five years ago. And its inability to resume may be attributed in a great degree — not entirely — to the National Banking law. This law requires the National Banks in the seventeen great cities to keep on hand a reserve, "*in lawful money*," equal only to twenty-five per cent of their circulation *and deposits;* those in other places need keep only fifteen per cent; and three fifths even of this meagre fifteen per cent may be bank balances due from the seventeen cities. Of course, this would be quite insufficient to prepare for resumption, even if the whole of this reserve in *lawful money* consisted of specie, which it does not, nor anything like it. In October, 1866, all the National Banks in the country held, in the aggregate, but little over eight millions of specie. It was a significant fact, that, even in our great cities, many of the banks celebrated their conversion into National Banks by selling nearly all their specie; and as for those newly instituted in smaller places, it may reasonably be believed that they never had any specie to sell.

Even now, the great impediment to a resumption, the great cause of the continued inordinate inflation of prices, is the circulation of 300 millions of National Bank currency. This sum is needlessly added to more than 356 millions of greenbacks and 39 millions of fractional currency, thus making an aggregate of nearly 700 millions of Paper Money, or more than three times the amount of convertible bank-bills ever in use before the war. Under the old State bank system, the banks in the cities of New York and Boston did not issue more than eight millions each of their own bills; and those in the former city usually held specie enough to redeem their circulation twice over. Each bank then maintained strict watch over the proceedings and the solvency of every other bank; since the failure of any one of the number could not fail to bring loss and discredit upon all the others. But the National Banks have not as yet been obliged to hold any specie reserve whatever; and the failure of any one of them is a matter of indifference to the others, inasmuch as the ultimate redemption of all the bills of the bankrupt institution is secured by the provision that is next to be noticed. The circulation now allotted to the banks of the two cities just mentioned exceeds 60 millions.

A capital feature, though not a novel one, of the National system is, that it requires the redemption of the whole amount of circulating notes to be secured by the deposit and pledge of United States stock, in the proportion of $100, at the market price of such stock, for every $90 of such circulation. In ordinary times, when the country is at peace and the money-market is quiet, this provision for security is simply unnecessary, and the machinery of the law probably will not be put in operation half a dozen times in a century. The convertibility of the note is abundantly secured by the necessity of keeping on hand a reserve of "lawful money," equal to 15 or 25 per cent of the circulation and deposits; or, at any rate, this safeguard would be enough, if, as under the State bank system, every bank were made the watchful guardian, through the Clearing-house and the Suffolk redemption system, of the solvency of every other bank in its portion of the country. It was proved to be thus sufficient for the State banks by the experience of the great commercial crisis of 1857, and the still greater politico-commercial convulsion, through which we have just passed, of the great Rebellion. For though the

banks suspended specie payments in both cases, they did so for the protection of the commercial community at large, and not from any necessity incumbent on themselves. In the former case, they quietly resumed payments after the lapse of a few weeks, hardly one of their number suffering final discredit and bankruptcy; and even in the latter case, as I have just shown, they were abundantly prepared to resume in less than a year, if the condition of the United States Treasury would have allowed them to do so without injury to the national cause.

But the misfortune of this mode of securing the convertibility of the note by a deposit of national stocks is its liability to break down just when its services are most needed. It is unexceptionable as a fair-weather system, but it would be swept away like chaff by a tempest, and must seriously involve the national finances by its fall. Suppose the recurrence of a great national calamity, such as the outbreak of another serious war. Our old State banks have demonstrated their ability to ride out such a storm in comparative safety. But how would it fare with the National Banks? Most of their capital being invested, not in private securities, but in United States stock, must, in such a case, fall in market value from 20 to 40 per cent. The necessity of immediately increasing their deposit in order to make up this depreciation, together with the demand for gold, and the private failures which the war would occasion, would not only oblige all the banks to suspend specie payments for the time, but force many of them into actual bankruptcy. The National Treasury, with its credit already impaired, being obliged again to appear in the market as a heavy borrower, would thus have the additional heavy burden thrown upon it of providing for the redemption of the whole paper currency of the country. Its only means of doing so would be to sell at auction the whole of the stock deposited with it as security, and thereby so glut the market that these bonds could be turned into money, and its own war-loans raised, only at an immense sacrifice.

We need not attempt to trace the results of such a calamity any further. In any case of serious political or commercial disturbance, or of both combined, I can anticipate nothing but evil to both parties from this virtual partnership between all the banks in the country and the National Treasury. All practical bankers

will probably agree in the opinion, that the capital of a bank is never so safely invested as in good negotiable paper of the private merchants within its own circle of customers, each note being of moderate amount, growing out of *bona fide* business transactions, and having but a short time, not more than two or three months, to run. These private securities, if selected with ordinary judgment, can all be quickly realized or turned into cash, with a risk of loss almost too insignificant to deserve mention; and even after a great commercial crisis, though the payment of a portion of the sum may be suspended for a while, the ultimate loss on it, if it has been distributed through a sufficiently wide circle, ought not to exceed five per cent. If enough of such paper cannot be had, it is a proof that the business is overdone; there is more banking capital than the proper mercantile community have any occasion for, and a portion of it ought to be withdrawn and invested by private persons in securities of a different character.

It was a great mistake to take away the whole bank edifice from its solid foundations on private commercial credit, and place it on the morass, the quaking bog, of national stock, which may be selling at par to-day, and at 70 or 80 next week. It is of the very nature of stock in an immense national debt, especially if such debt be of recent origin, to be subject to all the skyey influences; to be affected, not only by any serious movement in the commercial world, but by every turn of domestic politics; by every dread of a party coming uppermost which may favor repudiation; by every war or rumor of war, whether our own nation is to be immediately concerned in it or not; by every cloud which may darken the commercial or political horizon even in another hemisphere. About 1000 millions of our national stock are already owned in Europe. Thus is formed a bond of union between the stock-markets of the two countries about as intimate as that which connects the Siamese twins; the pulse of one must respond to every throb in the circulation of the other. According as the Bank of England lowers its rate of discount to 2½, or raises it to 10, per cent, — and frequently but a few months have been required to pass from one extreme to the other, — United States stock will rise or fall in the London market 20 per cent, and the New York market will follow suit. If there should be a failure of the wheat or the potato crop, England will pay for our corn, not, as formerly, with gold, but by a

shipment of stock. Perhaps this may be as well for the country generally; but I can see no security for the banks when they rest on a basis thereby rendered so unstable.

It only remains to consider whether the partnership will be any more beneficial to the other party to it, — the United States Treasury. We have seen that it will not aid the banks in keeping up the convertibility of their notes; will it help the government in negotiating future loans? Mr. Chase informed Congress that "the immediate advantage to the government will be found in the market created for bonds, and the support thereby given to the national credit." But he was obliged to add, (writing just before the passage of the law,) "little direct aid, however, is to be expected from this plan during the present, nor very much perhaps during the next, year." It was wise thus to expect but little, for in fact, up to the close of the war, as less than 115 millions of National Bank-notes had been issued, only about 128 millions of bonds and stocks had been received for them on deposit; and this sum, when compared with the enormous amount — some 2,500 millions — of the national debt at that time, seems too small to exert any appreciable influence on government credit.

If the banks, before receiving their currency from the Comptroller, had been required to come forward and subscribe enough to a *new loan* to obtain the stock which they were to deposit in the Treasury, a real advantage, though trifling in amount, would have been secured; the loan on which it would be necessary to obtain subscriptions from the public generally would be so much the smaller. But they were not asked to do this; they had merely to provide themselves with stock enough out of the great mass of it which was already floating in the market. Many of the old State banks, before reorganizing themselves under the law of Congress, had already large investments in national securities; many of their stockholders, it may fairly be presumed, had still larger amounts thus invested. What possible gain to the government was there in merely changing the name in which this stock was held, — in crediting it, for instance, to the Merchants' *National* Bank, and not simply to the Merchants' Bank, and to A, B, C, and D, stockholders therein? But it is to be deposited in the Treasury and remain there, instead of being liable, as heretofore, to be thrown into market any day, and sold for the most that it will

bring, thereby depressing the price of other national securities. Possibly there may be some good thus done; but I cannot think the price of stock will be much affected by knowing that there are only 2,650 millions of it offered for sale, instead of 3,000 millions.

But, place what estimate we may upon the indirect benefits to be reaped by the government from the establishment of National Banks, let us consider, for a moment, how extravagant is the price which the country is to pay for them. I will first adopt the supposition most favorable for the advocates of the system, and grant that the whole stock deposited proceeds from a fresh loan made to the Treasury for this very purpose. How high will be the rate of interest payable on that loan? Any partnership of persons not less than five in number are told, that, if they will lend $100,000 in greenbacks to the nation, they shall receive stock for that amount on which is payable 6 per cent interest. *in gold*, equivalent, at 30 per cent premium on that metal, to 7.8 per cent in currency. Then, on condition that they deposit this stock in the Treasury for safe-keeping, (the whole being still borne to their credit, and the interest on it continuing regularly payable to them,) the Comptroller of the Currency will immediately deliver to them $90,000 in National Bank-notes; and on the same day, if they are willing, the Secretary of the Treasury will borrow back from them this very sum of $90,000 in bank currency, and give them three-years Treasury notes therefor, on which 7.3 per cent interest is payable. How stands the account now? The five partners have advanced out of their own private resources to the government nothing whatever but $100,000 in greenbacks; and on this sum they are to receive $7,800 yearly as interest on so much stock, and $6,570 yearly as interest on the bank-notes first received by them as a free gift from the Comptroller, and then borrowed back again by the Treasury; making altogether $14,370 as annual interest on $100,000.

Looking at the matter in its other aspect, in which there is no false appearance of a new loan to the country, the offer is actually made to any holders of national securities, who choose to come together as a banking association, that, on condition of leaving this sum on deposit, they shall receive as a free gift an amount of currency equal to 90 per cent of their stock, on which the government will pay them the full market rate of interest. No wonder that, with such inducements, there was a very rapid organization

of banks under the new system, though most of them have but little capital. There had been 1629 of these institutions established before December, 1868. Even the New York city banks, which, as they existed under the former State organization, offered at first the most vigorous opposition to the new system, were bought over by the inducements thus held out to them, and have now a national character, much to their own profit, but very little to the advantage of the country generally.

The National Banks have also been in great part relieved, at the cost of the public, of what has usually been the heaviest portion of the expense attendant upon banking operations. The ordinary reserve, whether in specie or other funds, which is necessarily kept as a basis for the circulation, and to provide for sudden emergencies, is, of course, so much dead weight to be carried, for it yields no interest while locked up in the safes, and is therefore subtracted from the active capital. But that extraordinary invention of Treasury notes which should both bear interest and be legal tender, thus being at once Money and Capital, relieved them entirely, during the four or five years that these notes were in use, of this heavy charge. The whole 300 millions of National Bank currency were put into active circulation, and the reserves required by law — 25 per cent for the city Banks and 15 per cent for the country Banks — were kept in these notes, yielding to those who held them 6 per cent compound interest. Thus receiving from the government over 14 per cent a year on nine tenths of their capital, a large profit on their reserves, and charging the public 7 per cent for loans, this high rate being maintained by the usurious terms on which the National Debt was negotiated, we need not wonder that the Banks have paid heavy dividends to their stockholders ever since they were instituted. Before the war, bank dividends seldom exceeded 8, and often were not more than 6 per cent; since 1863, they have frequently divided 12 per cent, many of them also distributing, as soon as they were converted into national institutions, a heavy bonus to their stockholders, proceeding from the sale, at 40 per cent premium or more, of their former specie reserves.

When the compound-interest notes were finally paid off in 1867, the Banks had influence enough with Congress to procure the passage of a law creating, for their special benefit, 50 millions

of temporary loan certificates, payable on demand, but bearing 3 per cent interest, the statute providing that their reserve fund might consist of such certificates. This was somewhat better for the public than the old arrangement; but it was still bad enough, since it is difficult to see why the community should be taxed to pay any interest on reserves held for the exclusive benefit of bank stockholders, the only effect of such payment being to keep in active circulation 50 millions of greenbacks which would otherwise necessarily be withdrawn from use, such withdrawal tending to diminish the glut of Paper Money, and thereby aiding the restoration of the specie standard. In view of the manifold evils of a depreciated currency, this particular enactment must be said to compel the people to pay a high price for the whips that scourge them.

The only good effect, under the present system, of compelling the Banks to hold any reserve at all is, first, that it neutralizes in some degree the bad effects of a portion of the Bank currency; and, secondly, it adds something to the security of the depositors. But the government is under no obligation to guard the interests of the depositors, who must look out for themselves, because they are, for the most part, the same persons who obtain loans from the Banks, own stock in them, and for whose benefit, in fact, the Banks exist. *Laissez faire.* Stockholders in joint-stock corporations for other purposes than dealing in money, or even persons dealing with such corporations, do not claim from the State any special legislation for their security; and it would be very unwise in the legislature to attempt to afford such protection. Those are best guarded who guard themselves, the government interfering only to punish crimes, remove public nuisances, and protect the rights of individuals. But the addition of the Bank issues to an already inflated currency is not so great an evil as it would be if the law did not require about one fourth of such addition to be locked up in reserve. Not that the portion so locked up is thereby wholly prevented from doing mischief. Indirectly it still fosters speculation and enhances prices, though not on so large a scale, or with so much effect, as if immediately employed in making purchases. As I have already pointed out, a reserved fund is an increase of purchasing power, and its influence will be felt in the markets before any portion of it comes into active use. Speculative purchases are usually made on credit, and men will

incur greater risks in them if they have reserved funds which will obviate the necessity of too early sales.

For its proper service as a guaranty of the convertibility of the Bank-bills, the reserve in a National Bank is of no use whatever. The bills need no such guaranty, as the government is the party actually responsible for them, and they must be redeemed, in the last resort, at the Treasury of the United States. Their convertibility is thus so far insured, that they pass current just as well after, as before, the failure of the Bank which nominally issues them, and reaps all the profit on their circulation. This statement even falls short of the truth; such bills actually command a considerable premium in the market after the Bank has avowedly gone into liquidation, and its affairs are to be wound up by a receiver. A printed circular is now before me, from a Bank in the city of New York, offering "4½ per cent premium for the Circulating Notes" of seventeen Banks therein enumerated, which had failed before September, 1869. The Treasury is obliged to employ the other National Banks as its agents to collect the bills of the bankrupt institutions, the public generally having no interest or wish to present them for redemption; and even the sound Banks need to be stimulated to this work, by the bribe of having their own share of "the national currency" increased by the aggregate amount of those discredited bills which they are the means of withdrawing from circulation. The bribe is not a small one; for merely affixing its corporate name to a pile of bills not one-tenth part of which it will ever see again, and buying an equivalent amount of United States bonds, the Bank reaps a profit of over 14 per cent a year at the cost of the tax-payers, who are burdened with an inflated currency.

In fact, until specie payments shall be resumed, the convertibility of the Bank-bills means nothing, and the hollow pretext might as well be given up altogether. The law requires the notes, on presentation, to be redeemed "in lawful money," — that is, in greenbacks. But no one wishes to exchange one of these forms of Paper Money for the other; both are equally current, and equally available for all the ordinary uses to which money can be applied, except that of exportation. The effect would have been precisely the same, and there would even have been a considerable saving of expense and of complexity in the operation of the

system, if the government had put its free gift of 300 millions to the National Banks into the form of "greenbacks" instead of "National Currency," the change of name really signifying nothing. Yet it was stated on the floor of Congress, that, when the organization of the system was as yet incomplete, "the Treasurer of the United States borrowed large amounts of their circulating notes from the National Banks *before they were put in circulation*, and few or none of them have even been seen by those banks since." And at this time, it should be remembered, the principal of all the national loans being in Paper Money and the interest in gold, the government was actually paying from 9 to 15 per cent a year on all that it borrowed. It does not appear surprising, then, that Banks should be organized, as they sometimes were, for the sole purpose of obtaining notes to circulate, without doing any business in banking; their whole capital was invested in United States bonds, and with the National currency thus obtained, they made further purchases of the same nature. Such a bank was found located at one of the desks in a broker's office, and the only entry on its books was of $20,000 credited to the Treasurer of the United States.

Though the machinery contrived to secure the redemption of the bills failed to accomplish anything for the desired end, indirectly it did much harm. The country Banks were empowered to deposit three fifths of their reserve with some Bank in one of the seventeen large cities in which their circulation was to be redeemed. The rivalry of the city Banks with each other in attempting to obtain a share of these deposits caused a high rate of interest to be offered for them; and thus all the spare capital from the country was attracted to the commercial centres, though liable to be recalled thence without notice. As interest was paid on these Bank balances, the city Banks could not afford to leave them unemployed, but let them on collateral security and "on call," as the phrase is, or payable on demand, to stockbrokers and speculators. They could not safely be let on any other terms, as they were always liable to be reclaimed by the country Banks when they were most needed. A fluctuating fund of large amount was thus kept in the cities, resting on a most uncertain basis, as if for the sole purpose of fostering reckless speculations in stocks and betting on the price of gold. Frequently loans

could not be obtained from the Banks for legitimate business transactions except at usurious rates, while they were freely offered "on call" at much lower rates, avowedly for use in stock-jobbing, the collateral security for the loan being the very stock employed in the speculation.

It would be discreditable to the intelligence of the people of this country to suppose that evils and wrongs so signal as those created by the National Banking system could either escape notice, or be passively endured under a belief that they were inevitable. But so vast a multitude are here interested in the Banks, either as stockholders or as dependent upon them in their business, that the most influential portion of the community were bribed to silence, or induced to regard the mischief with only a shrug of wonder and discontent. The system was inaugurated amid the confusion and perils of a terrible civil war, when attention was concentrated upon the great issues at stake in the strife, and men were willing to make any sacrifices demanded of them as the price of victory. It was adopted by Congress almost without debate, mainly through the importunity of the Secretary of the Treasury, who represented it as an indispensable aid in the management of the finances. Even after the contest in the field had ceased, the restoration of the shattered fabric of the Union still engrossed the attention of Congress and the public; and time was thus gained for the National Banks to be organized throughout the country, to be intwined with all the interests of trade, and for the people to become familiar with the appearance and use of the National currency. The old State banks had passed away beyond the possibility of revival; and as commerce could not live without banking facilities of one sort or another, the new institutions were held to have acquired a vested right to the ground which they already occupied, and were accepted as a necessary evil. Indeed, the only question soon was, whether the National Banking system should not be enlarged and strengthened, as well as perpetuated.

It could not be expected that the enormous profits of National Banking should continue to be monopolized by the lucky institutions which were first organized under the law of 1863. The questions were soon asked in Congress, and by politicians desirous of being elected to Congress, — Why should there be only 1,629

National Banks, and not rather 3,000, or even a larger number? Why should the Treasury make a free gift to them of only 300 millions of National Currency, and then hire it back again at 9 or 10 per cent interest, when it might, with equal or greater justice, thus give away twice as much, and shower the bounty equally upon all parts of the country, "in proportion to their representative population"? If the country can afford to have 700 millions of Paper Money in circulation, why should four-sevenths of this sum be in the form of a loan without interest from the people to the government, instead of being, like the remaining three sevenths, a bounty to persons owning stock in Banks, and willing to lend it back again to the Treasury at the market rates of interest on government stock? Why should not the 400 millions now called "legal-tender Treasury notes," or greenbacks, and "Fractional Currency," change their names — it would be only a change of name — to "National Currency," and then be bestowed on the numerous applicants for it, any five of whom, on receiving their share, would gladly organize therewith a National Bank at some spare desk in a broker's shop? Why not have the free or unlicensed banking, which has been so much talked about, and which would certainly multiply to an indefinite extent all the benefits now derived from the National Banking system?

These questions are not asked merely in the spirit of caricature. They fairly represent measures which have been, not only proposed in good faith in Congress, but gravely advocated there; and the advocates of them have at least this merit, that the very extravagance of their proposals has thrown a strong light on the folly, wastefulness, and injustice of the system which they sought to extend and perpetuate, but which they have unwittingly caricatured. The chief argument urged by them in favor of increasing the number of the banks and the quantity of the currency is, that the benefits of the system are at present very unequally distributed? The New England and the Middle States have much more, the Western and the Southern States much less, than their fair proportion of the institutions that have been organized and of the Prize Money which has been distributed under the law as it now stands, if the extent of the population is a proper measure of the banking facilities that are needed. But it is not such a measure, since banks are needed in proportion, not to the number of the people, but to

the amount of business done by them; and therefore a manufacturing and commercial community needs far more banking capital than one devoted in the main to agriculture. Under the old system, when each State was free to create as many banks as it desired, Congress having nothing to do with the matter, New England, with a population of three millions, had over four times as much banking capital as the Western States, where the population was nearly eight millions.

The real meaning of the claim put forward ostensibly for an equal distribution of banking facilities is, that each State should have its fair share of that free gift from the United States Treasury of 300 millions of dollars, which was made under the pretext of creating a new system of banks. As this bounty was given to those who first asked for it, and who could most quickly bring together and deposit with the government the quantity of United States stock which was the condition of the gift, (though not in any sense a payment for value received, since the stock continued to be their own property,) some States obtained much more than their fair proportion, and the others have a perfect right to demand that this inequality shall be removed, so that all may share alike. As those who had obtained more than belonged to them could not be reasonably expected to pay back the excess, the proposal now is, that the public Treasury shall furnish another sum, large enough to give each claimant as much as the luckiest State has heretofore received. This, at least, is an intelligible proposition, and perfectly satisfactory to all parties except to the nation at large, that must be taxed for the additional sum which is required.

It seems to be forgotten by the claimants for additional bounty from the Treasury, that the amount of currency which continues in use in any State does not at all depend on the quantity issued to its banks, any more than the amount of specie remaining in circulation depends upon the quantity coined by the mint. The paper currency issued, and the specie coined, inevitably go where they are most needed, that equalization of prices throughout any one country and throughout the world, which commerce is always striving to effect, being only another name for the distribution of the whole stock of Money among various communities, in quantities exactly proportioned to their relative wants. The necessary laws of trade, and not the action of the United States government, de-

termine the rapidity of the circulation and its ebb or flow in different markets. The greenbacks certainly were not parcelled out by the Treasury among the several States, but they distribute themselves, and no one complains of the inequality of the distribution. The currency of the National Banks is subject to the same influences; no portion of it has any proper home, or any preponderant local attraction, except towards the great centres of trade. Its distribution is quite as free and spontaneous as that of the greenbacks. It is easy to see, therefore, that no additional banking facilities will be created in any State by the allotment to it of a larger portion of the National Currency, any more than by the free gift of an equivalent value in greenbacks or specie. The bounty of the government simply enables the Banks to make larger dividends to their stockholders; it does not increase either their disposition or their ability to foster commerce and manufactures in their respective localities. If these institutions are indebted for their existence to grants from the Treasury, and not to the exigencies of business, they will be banks only in name.

It is often argued in favor of the National Banks, that the taxes which they pay to the National government on their circulation, deposits, and that portion of their capital which is not vested in United States bonds, and to the individual States on the shares owned by their stockholders, are a fair equivalent for the currency which they have received. The obvious answer to this argument is, that capital existing in other forms — in railroads, telegraphs, express and gas companies, insurance, steamboats, and the like — is taxed at least to an equal extent. The tax upon deposits and capital not vested in government securities is paid also by private bankers, who have received no bounty from the Treasury. If the National Banks should cease to exist, the capital which they now possess would not be destroyed, but would be employed in other undertakings, wherein it would contribute as much as at present to the support of government. The tax of one per cent on the circulation is not so much as that imposed on several other kinds of property; and it is not very reasonable to expect that wealth obtained as a free gift should also be exempted from taxation, while the whole public burden should be imposed on labor and on capital that has been produced by labor.

It is true that a judicious application of the taxing power might

lessen some of the evils of the present system. So far only as they are institutions of Deposit and Discount, the banks ought not to be taxed more heavily than other institutions employing an equal amount of capital. Perhaps they should be somewhat favored in the exercise of these two functions, on the ground that they benefit the community by taking capital out of the hands of those who either cannot or will not use it, and confide it to those who will unite it with industry, and thereby make it active in the great business of production. The opinion, held by many, that banking should be more heavily taxed than any other trade, proceeds from an indistinct perception of the fact, that the banks in their third function, as issuers of currency, and especially of the small-note circulation, obtain profits which do not properly belong to them, and subject the community thereby to very considerable hazard of loss for the sake of their own advantage. If paper currency is to be substituted for metallic currency, the profits of the substitution ought to accrue for the benefit of those who make it,—of those who are willing to give up coin, and accept paper with all its attendant risks. The act of substitution is the act of the community at large; to be the agents in this act is a usurped function of the banks, in no wise connected with their other and proper offices. It belongs to the state, and ought to be exercised for the benefit of the tax-payers, — that is, of the persons who, by giving up coin and accepting paper, make a saving of the precious metals, and ought to profit by that saving.

Especially is this reasoning applicable to the case of the small-note circulation. In respect to bills of a higher denomination than $10, it may fairly be urged, that they circulate generally among merchants, bankers, and capitalists, who therefore ought to be allowed, through the banks, to control the issue of them, so far as it can be controlled consistently with maintaining their convertibility into specie on demand, and to reap the benefit of their circulation. But not so with regard to the small bills, which are the money of the bulk of the people. Here the whole risk rests with the persons who use the notes; and if any profit is to be derived from such use, this also should belong to them. Otherwise, a serious hazard is imposed upon them for the benefit of others, who can show no good title to the gains which they usurp.

It appears from the official returns, that about 205 millions, or

more than two thirds of the present amount of bank currency, are in bills of various denominations not exceeding $10. These form the circulation properly so called, passing from hand to hand in wages and retail transactions; they are the money of the working classes, who have nothing to do with the banks, and ought not to be taxed for their benefit. The soiled and ragged state of this portion of the currency is a significant indication of the use to which it is put. The larger bills are usually found as clean as when they were first issued; in fact, they are seldom seen out of the banks, except in the hands of large dealers and wealthy persons. The small bills ought to be entirely displaced by specie, or should be taxed at least 7 per cent, so that the whole profits of their emission might be enjoyed by those who consent to use them. An indirect consequence of taxing them thus heavily would probably be, that stockholders in the National Banks would no longer oppose a resumption of specie payments.

CHAPTER XVII.

NATIONAL DEBT: VARIOUS METHODS OF FUNDING.

National Debts, though they are now wellnigh universal, are comparatively modern inventions. They were invented at about the same time in France, England, and Holland, towards the close of the seventeenth century. Before that period, indeed, costly wars had been waged, and governments had not only contracted heavy debts, but often failed to pay them. Sometimes they got rid of them by the dishonest expedient formerly called "raising the standard," though we designate it by the more appropriate phrase of "depreciating the currency." Kings and governments frequently became insolvent; but their obligations, like those of private persons, were always regarded as strictly personal, and as finally dissolved by the death of the bankrupt leaving no available assets. The contrivance of funding a National Debt on the perpetual annuity plan, so as to throw the burden of supporting and paying it upon posterity, — in other words, of making debts transmissible by inheritance, like a house or farm, — was never heard of on Eng-

lish ground before the Revolution of 1688. It was first hit upon during those costly and disastrous wars which were brought upon Europe by the ambition of Louis XIV.

Mr. Macaulay, indeed, in his anxiety to defend the fair fame of his hero, says "there can be no greater error than to imagine the device of meeting the exigencies of the state by loans was imported into our island by William III. From a period of immemorial antiquity, it had been the practice of every English government to contract debts. What the Revolution introduced was the practice of honestly paying them." This statement, like too many others by this brilliant partisan historian, is succinct and terse, but inexact and disingenuous. William III. refused to recognize a shilling of the pecuniary obligations left behind them by the Stuarts, though he did not pay the debts contracted under his own administration, but left 15 millions sterling of them, which are not paid yet, and probably never will be; and he did begin the practice, never before known in England, of bequeathing a National Debt to posterity, when, in 1694, he chartered the Bank of England, and gave it a perpetual annuity of £80,000, in return for a loan of £1,200,000.

Up to 1775, the English National Debt, far the most considerable one in Europe, was but 146 millions sterling, about two thirds of which had been contracted in the Seven Years' War that terminated in 1762. The war of the American Revolution added over 100 millions sterling to its amount; and the long struggle with France, which ended in 1815, raised it to 840 millions. Since that year, it has been reduced to about 800 millions, or somewhat less than 4,000 millions of dollars, the annual interest on which, averaging nearly 3½ per cent, is about 133 millions of dollars. The origin of a large debt of the English government to the South Sea Company, about 10 millions sterling, was in what we should call deferred or funded "certificates of indebtedness." The Treasury, being unable in any other way to pay the sailors of the fleet, gave them tickets for the sums due them with interest; and the poor tars, in their need of ready money, were obliged to sell these tickets to brokers at a heavy discount. The South Sea Company, a great financial association, bought them up, and then had interest enough to induce the government to fund them in perpetual annuities.

Every country of any importance on the continent of Europe has now a large National Debt, contracted in the main, like that of England, to meet the extraordinary expenses of war. In proportion to their wealth and ability to pay the annual interest, at least four of these countries, Austria, France, Italy, and Holland, are more deeply in debt than England. Most of these debts, like the English, are redeemable at par at the option of the government; but no definite time is fixed for such redemption. In one sense, therefore, the debt is merely nominal, since no person has a right to demand of the government, at any time, the payment of any portion of the principal. The annual interest is all that the stockholder is entitled to; and this right is inviolable. The state did not borrow his money under any obligation to repay it at a fixed day, but only sold him an annuity, which is a perpetual annuity, unless the government should see fit, at some future time, to exercise the privilege, which it has reserved to itself, of redeeming any portion of it by paying off *at par* the stock of which it is really the interest. The operation of *funding* properly consists in putting a National Debt into this form of a perpetual annuity, redeemable, *at the option of the debtor*, at a certain amount which is fixed upon, and is called *the par*.

This par is not necessarily the sum which the government received at the time of contracting the debt, but is generally much larger, the excess often being 50 or 60 per cent. For instance: the government sells an annuity of $500 a year; if it chooses to create a 5 per cent stock for this purpose, it designates $10,000 as the par, since this sum, at 5 per cent, will yield a revenue forever of $500 a year; if it prefers a 4 per cent stock, it designates $12,500 as the par, as this sum also, at 4 per cent, will produce a perpetual annuity of $500. In either case, it sells the $10,000 of 5 per cent stock, or the 12,500 of 4 per cents, or the perpetual annuity of $500, — it matters not what name we give it, since in fact they all amount to the same thing, — for whatever may be at the time its market value, — very likely for not more than $7,000 or $8,000. But if, at some future day, the government should see fit to pay off the debt, it will be obliged to pay either $10,000 or $12,500, according as it has called the stock 5 per cents or 4 per cents. Hence it is, that the government usually pays interest on a much

larger sum than it has actually received. Thus, the English Debt, of 800 millions sterling at 3 per cent, represents only about 464 millions actually received by the Treasury, so that the government is in truth paying over 5½ per cent interest.

The first meaning of the phrase "funding a debt" was different, and deserves explanation, as it shows how the perpetual annuity plan originated. Over a century ago, it was a common practice in France and other countries, when the government was in want of money for war purposes, to "farm the public revenues," as it was called; that is, in return for a large sum of money received in advance, to make over to the public creditor, for a given period of years, the right of collecting some tax or duty for his own benefit. For instance: suppose the salt-tax, or the duty on sugar, to yield five millions annually. The government might then, on condition of receiving $38,600,000 paid immediately, *farm* or let out to the persons advancing this sum the right to collect, for their own benefit, the salt-tax or sugar-duty for ten years; since an annuity for ten years of five millions, at 5 per cent compound interest, is worth about 38½ millions. Of course, the "Farmers General," as these persons were called, became very unpopular, as they had their own officers and excisemen, who collected the taxes for them with great rigor; and the odium of the burdensome taxes was thrown upon these agents, many of whom were guillotined during the French Revolution of 1789. The transaction was really a sale or mortgage, for a limited period, of certain revenues of the state, rather than a loan. It was perfectly legitimate; since the state has an undoubted right, as one mode of raising extraordinary supplies, to impose additional taxes, and then to anticipate their proceeds by selling or mortgaging the right to receive them, for a given number of years, as a means of repaying both principal and interest of the sums advanced on their security. The revenues thus pledged, or actually made over, were called *the funds* on which payment of these short annuities was secured. This was the original meaning of the phrase "funding a debt," which we have retained, though the practice itself has become obsolete, as it is not the fashion nowadays to guaranty the payment of the public debt in any other way than by an implied and indefinite pledge of the public faith.

This custom of farming the public revenues obviously led the

way to the practice of selling annuities for short fixed periods, say for 10 or 20 years. Then life-annuities were sold. Afterwards Tontines were established, which are life-annuities paid to a small company of persons in the manner of a lottery, with benefit of survivorship, the share of each holder after his death being distributed among his associates, so that the last survivor receives the aggregate amount originally paid each year to the whole company, and only at his death is the total annuity extinguished. Then long annuities, for 99 years or more, were granted, — a step which soon led to the present plan of making the yearly payments perpetual.

The history of the finances in France is curious, as showing how difficult it was to establish in that country the doctrine, now so commonly received, that an irredeemable National Debt could be handed down as an inviolable bequest to later generations. When Colbert, the great minister of Louis XIV., became director of the finances in 1661, he found the state oppressed, not only with all the forms of indebtedness already mentioned, but with others yet worse, growing out of the pernicious practice of farming, and even selling outright for an indefinite period, distinct portions of the public revenue. He instituted a plan of reform which was not more daring in its conception than felicitous in its results. Not venturing indeed to wipe the slate, he still insisted that the prompt and sure payment of a moderate interest on what the state had actually received was preferable to uncertain and irregular instalments of the yearly sums nominally due on a fictitious capital, which had swollen to its present amount under the joint action of the cupidity of contractors and capitalists, the malversation of men in office, and the necessities of the state. It was evident, also, that a continuance of these feeble and irregular efforts could end in nothing but speedy and total bankruptcy, in which case the public creditor would lose all.

Colbert insisted that the state was under no moral obligation to pay anything more than the legal or customary interest on the capital which it had actually received. Any usurious excess, forced upon it by creditors availing themselves of the opportunity afforded by its great exigencies during a period of confusion and war, might fairly be treated like the corresponding hard bargains forced by Jews upon the heir to an estate during his minority. The state, he argued, was a minor, and its guardians had the privilege, which

all legal codes concede in parallel cases, of reviewing the obligations contracted during a period of nonage, and reducing them to an equitable standard.

Whatever may be thought of these arguments, the system founded upon them was carried into execution. The discredited certificates of indebtedness were funded at the heavy rates of discount at which their actual holders had purchased them. Annuities first sold at ruinous rates, on account of the insufficiency of the special revenues assigned for their payment, and on which, consequently, the annual payments had not exceeded 30 or 40 per cent of their nominal amount, were proportionally reduced, or paid off at rates not exceeding what had been their current market value. By means of such retrenchments, and also of heavy fines levied upon those who had combined fraudulent with usurious transactions in their dealings with the state, the annual payments on account of the public debt were reduced to one half, in some cases to one third, of the sums first stipulated. The consequence of these measures, and of the economical reforms in the ordinary expenditures which accompanied them, was that the energetic minister was loudly censured for a breach of the public faith; but the credit of the state was actually enhanced, and public loans could be effected on terms nearly as favorable as were granted to private borrowers. This, however, was not Colbert's object; he wished to take away both the necessity and the power of the government to incur debt under any circumstances; and he would have succeeded, but for the outbreak of another war in 1672.

The example being thus set of reform by means of what would now be called partial repudiation, it was followed on several other occasions, when France was compelled to admit her virtual bankruptcy. Thus, in 1713, the capital of large portions of the public debt was arbitrarily reduced one fourth, and the interest on the remainder cut down from 5 to 4 per cent, on no other plea than state necessity. In 1716, and again five years afterwards, this plea was renewed, and the forced reductions were still more considerable. After this last period, the finances of the country continued in a chronic state of confusion and disaster, from which even the genius of Turgot and Neckar failed to rescue them, and of which the Revolution of '89 was both the natural consequence and the remedy.

In striking contrast with this history of the growth of public debt in England and France, we have the financial prosperity at this period, and even to a much later day, of the little kingdom of Prussia. Aided by a considerable treasure which the avarice of his father and his own administrative talent had accumulated, the genius of Frederic the Great met all the exigencies, the mingled triumphs and disasters, of the war of the Austrian Succession and the Seven Years' War, without contracting a dollar of debt. "The burdens of the war had been terrible, almost insupportable; but no arrear was left to embarrass the finances in time of peace."

The question has been asked, and with increasing earnestness of late years, — Why have any National Debt? Why not pay as we go, in war as well as in peace? Certainly not from the lack of ability. We might have done so, had we seen fit, even in the unparalleled war of the Great Rebellion, the most sanguinary and the most expensive of all that are recorded in modern history. It has already been proved, that the total expense of the war actually was defrayed out of the surplus earnings of the people of these Northern States during the four years of its continuance, leaving the country at its close at least as rich, probably somewhat richer, than it was at its commencement. It was not thought proper, however, that the surplus earnings of the whole people for four or five years should be thus contributed to war purposes. It was deemed best that most of them should continue in the present enjoyment of the fruits of their industry, on condition of reimbursing, with interest, out of their *future* earnings, — in the way of stock payable in three, five, ten, or twenty years, — those owners of capital, (our own fellow-citizens, be it remembered,) from whom the government borrowed enough to carry on and finish the conflict.

The matter admits of being put in another light. The actual debt incurred during the first fourteen months of the war — that is, up to the 30th of June, 1862 — was less than 515 millions; a year afterwards, (June 30, 1863,) it was 1,098 millions. The two years after that time were more expensive, partly on account of the increase of the armaments, partly from the interest payable on the debt thus already incurred, but far more from the rise of prices, (the bounties for recruits and the soldiers' pay included,)

which was wholly caused by that depreciation of the currency, consequent on the excessive issue of it, which was one of our modes of incurring debt. Deducting these last two sources of expenditure, namely, the interest and the greater outlay caused by the state of the currency, and allowing further for the vastly greater economy with which affairs would have been conducted if all expenses had been met by taxes levied within the year, it is certain that the cost of the war throughout need not have exceeded what was its actual average cost during the first two years, namely, six hundred millions a year. A year must be allowed after the close of hostilities for the slow and costly process of disbanding the army and navy, and returning to a peace establishment. Then there were five years during which the people would have been obliged to support the Union and the government by an annual payment of 600 millions, thus forming an aggregate of 3,000 millions, or at least 25 per cent less than what was the aggregate of the national, State, and municipal war debt in the summer of 1866.

Now the sum actually received from taxation by the national government, in the first fiscal year after the war, exceeded 550 millions, besides at least 100 millions more to the States, cities, and towns, on account of war debt and expenses, making a total of 650 millions of war taxes. The average annual payment of such taxes, for at least four years more, was 450 millions. The people contributed these immense sums annually, though not without inconvenience, certainly without much grumbling. Can there be any reasonable doubt, then, that while the conflict was still raging, and the spirit of the nation was high even to enthusiasm, we could have made the contribution 600 millions a year, not only without trouble, but with cheerfulness, and still have found the country, at the close of the war, not only as rich as at its commencement, but without any National Debt? The people could have paid 600 millions annually for five years of war more easily, and with greater contentment, than they can now pay 130 millions a year, as interest on the debt, for an indefinite time to come.

Why was it not so ordered? There can be but one answer to this question. It was from considerations of political expediency. It was feared that the people would be disheartened by so heavy a burden being imposed upon them at the outset, before their

hearts were fully kindled by the progress of the strife; that the hands of the peace party would be strengthened by the accession of a vast number of the irresolute and the penurious, had these last been compelled from the beginning to contribute their whole surplus earnings to the war. I am far from denying that there was much force in these considerations. It must never be forgotten, that a war so completely popular in character as that through which the United States have recently passed, is waged not only in the field, but in the council-chamber, in legislative halls, in popular assemblies, and, above all, at the ballot-box. In or at these last it is that the tide of victory may be permanently stayed, or that defeat becomes final. Still it is true, that the great financial mistake which the government committed was in not imposing very considerable taxes from the outset, — not large enough to defray the whole cost of the conflict, and yet sufficient to place the national credit on an unassailable basis. Such taxes, if steadily increased as the war went on, and the people became accustomed to them, might have brought the country to the close of hostilities with a debt not more than one third as large as what it now owes, and contracted also on much more favorable terms. But it is easy to be wise after the event.

The doctrine that a comparatively small immediate sacrifice, through the payment of heavy taxes during a war, might prevent the accumulation of a mountain of debt at its close, has been demonstrated by the experience of the British government during that long war with France, which, on the borrowing and funding system, actually added 600 millions sterling to the National Debt. The struggle really lasted but twenty-one years; but allowing one year of preparation for it, and two more years for the necessary delay in coming back to a peace system, the whole war period may be said to have been twenty-four years. Putting aside the payment of interest on debt contracted during the war, it appears that the total expenditure of the country exceeded the revenue obtained from taxation only during the first twelve, and the last four, years of actual conflict. During the other eight years, the income would have exceeded the expenditure, but for the interest on the sums borrowed during these sixteen years. Deducting the total of the credit excess during the one period from the total of the debit excess during the other, the remainder is only about 151 millions

sterling. In other words, the total expenditure of the country from 1793 to 1816, both inclusive, for internal government, colonies, the war, and debt contracted previously to 1793, was only 151 millions greater than the revenue actually derived from taxes during these years. Deducting this sum from 600 millions, — the debt actually incurred, — we have 449 millions as the debt needlessly incurred from the accumulations of interest, from a vicious funding system, and from not imposing the heavy war taxes soon enough.

Still further, if England had been out of debt at the beginning, — that is, in 1793, — so that there would have been nothing payable for interest on old debt, and if the amount actually raised by taxation had been equally distributed through the whole twenty-four years, instead of raising only one third of it during the first twelve years, and two thirds of it during the last twelve years, then the government would not only have been free from debt at the close, but would have had a handsome surplus. To state the matter still more simply: exclude altogether the payment of interest on debt, and suppose the sum actually levied by taxation to have been, not increased, but only distributed equally throughout the war period; then the country would have emerged from the conflict, not only free from debt, but with a large surplus in the Treasury. In this sense, the whole cost of the war *was* defrayed out of taxes collected during its continuance. Only they were not levied at the proper time, and the interest of old debt was allowed to accumulate; the result of these two mistakes being that the present English government is saddled with an additional debt of 600 millions sterling. If we ask why the British ministry did not distribute the burden of taxation equally throughout the whole period, so that the income of each year would have covered the expenditure, the answer again is — political expediency. They feared to do it, lest the increased clamor of the Opposition should have compelled a peace.

The next question is, Ought measures to be instituted for paying off the debt, principal and interest, as soon as practicable, or should it be allowed to continue for an indefinite period? The English government have adopted the latter policy, having reduced their debt but little for half a century. It is neither a want of means, nor what has been called "an ignorant impatience

of taxation," which has caused this delay. The annual sum received from taxes is no larger now than it was during the four years ending in 1816, though the population meanwhile has nearly doubled, and the national wealth is increased at least fourfold. That the people would bear, without material discontent, a considerable increase of their present burdens, was proved by recent experience in the Crimean War. The Debt is allowed to continue, from the belief that it gives firmness and stability to the government; nearly the whole property of the country, as more or less intimately connected with the debt, being deeply interested in its support. It is also a powerful dissuasive from any future war; it may be said to have placed England under very heavy bonds to keep the peace. This consideration has gained ground of late years, being the foundation of the ultra peace-policy adopted by that large portion of the commercial and manufacturing middle classes, who followed the lead of Mr. Cobden and Mr. Bright. It must be confessed that there are two sides to their favorite argument. A large National Debt may restrain the country from going to war, even when the national honor and security seem to advocate vigorous measures.

Reasons will soon be adduced to prove that it is not only the duty, but the interest, of the people of this country to make provision for paying off the entire Debt at the earliest possible period. But we must first consider the nature and different methods, the advantages and disadvantages, of the Funding System. National Debts are contracted chiefly during a war, when the finances of the state are embarrassed and its credit is low, and when the state of trade generally is such that even merchants and manufacturers, of large means and sound reputation, cannot obtain the use of capital except at high rates of interest. The necessities of the government being great and urgent, it must borrow on the best terms that can be obtained, but which are, of course, far less favorable than they would be in a time of peace. A keen contest ensues between borrower and lenders, the object of the former being to pay these usuriously high war-rates of interest for as short a time as possible, and of the latter to counteract his efforts, either by obtaining a guaranty that the loan shall continue many years at an undiminished rate, or by charging a high price for the privilege of redemption at an earlier day.

The policy of the British government has been to fund the Debt, either at once, or as soon as possible; that is, as already explained, to put the interest into the form of a perpetual annuity, but redeemable at the pleasure of government at a fixed price, called the *par*. In Queen Anne's time, early in the seventeenth century, the ministry funded the debt at 6 per cent interest; and the consequence was, after peace had returned, capital had become abundant, and the government credit had improved, that they were able to reduce the rates to 5, to 4, and even to 3½, per cent, the stockholders having the option either to accept these rates, or to be paid off in full, the Treasury being then able to borrow in open market, at the current rates, the wherewithal to pay them. But shrewd business men, who had lent money to the state, were not to be caught in this way a second time; their object was, of course, to obtain the high war-rates of interest as long as possible, — even after, and long after, the return of peace. War returned, the government was again in great want, and capitalists refused to advance funds, except on some condition which should give them this advantage. The Treasury, on the other hand, was reluctant to adopt the obvious means of giving a guaranty that the rate of interest should not be hereafter reduced, or, what is the same thing, that the Debt should be irredeemable for many years; this would be a frank confession of the hard terms on which they were compelled to borrow, and the permanent burden thus thrown upon the country would endanger their popularity. But, in a covert way, that was done which amounted to precisely the same thing.

The loan was offered in stock bearing interest at a very low rate, say 3 or 3½ per cent. But this stock was taken only at a heavy discount, varying from 40 to 50 per cent; that is, for £100 of such stock, the lender paid only £50 or £60 in cash. The lenders said, "Capital is *now* worth" (war-times, be it remembered) "5 per cent interest; then, for a 5 per cent stock, we will give £100 cash for every £100 of stock; but for £100 of 3 per cent stock, we will pay only £60 in money." On these terms, the government could obtain the 10 millions in cash, which they needed, only by creating upwards of 16½ millions of Debt. And this is the sum which the country would be obliged to pay, should it ever be able and desirous to pay off the Debt. In this way,

the lenders are secured against any future reduction of the rate; nominally receiving but 3, they are actually paid 5, per cent on all the capital which they have advanced; and they cannot be paid off, except on the hard condition of paying them £100 for every £60 which they had furnished.

In this manner, nearly the whole English National Debt has been created. It has been funded at a nominal par, exceeding by 40 or 50 per cent the real par. No wonder the country is not very desirous to pay off at this nominal par a Debt thus created. In 1781, 21 millions of stock were created for 12 millions cash received; on this stock, the rate being nominally 3, the government has been actually paying 5¼, per cent down to this day. Even this was better than the terms on which they were frequently compelled to borrow during the long French war. Thus, in 1797, the price paid was 215 of stock for 100 in cash; in 1804, 185, and in 1815, 191½, for 100. The average, for the whole period of 24 years, was 173 for 100. Thus, for the 600 millions of debt which this war saddled upon the country, less than 350 millions was received in money.

Even this is not all. A Sinking Fund was kept up most of the time, though such a Fund is a delusion and a loss whenever the government is contracting new debt more rapidly than the Fund is paying off old debt. Borrowing more money than you pay is not a promising mode of reducing one's debt. Still the Fund existed, and its Commissioners were therefore frequently in the market, buying up government stock, but never buying it on terms so favorable as the original lenders of the money obtained from the ministry; for there was a good deal of favoritism shown in the original distribution of the stock. Thus, in 1816, from the surplus of the loans raised the previous year, the government applied 13 millions sterling to buy up, at the rate of 62 for the hundred, the very stock which they had sold a few months before at the rate of 50 for the hundred. They cannot buy the same stock now for less than 90; and if they purchased any considerable amount, the price would rise to 100, or par.

The nature of a Sinking Fund is, that the portion of debt redeemed or bought up in any year is not cancelled, but is usually put into the hands of Commissioners for reducing the Public Debt, who continue to receive from the Treasury the interest pay-

able on the bonds which they hold, and apply what they thus receive, together with any other sums which the government may annually allot for the same object, to the purchase of more stock to be added to the Fund and used in the same manner. The Fund is therefore rapidly enlarged, because the whole sum vested in it yields compound interest; and every arithmetician knows that the accumulation then proceeds in geometrical ratio, thus yielding results which to the uninitiated appear quite marvellous. But there is nothing mysterious in the rapid increase of the stock so held, because the country, meanwhile, is paying full interest on the original amount of the Debt, though much the larger portion of it may have been redeemed and put into the Sinking Fund.

This exposure of the vicious methods of the English funding system may teach us equanimity in regarding the serious blunders committed by the government of the United States, in raising the enormous loans required for the prosecution of the recent war. The Secretary of the Treasury certainly appears to have been serious in his attempts not to commit the same kind of error as that of the English financiers. Except at an early period in the history of the war, when he did issue a large amount of stock bearing 6 per cent interest in gold, which was made irredeemable for twenty years, he seems to have used every effort to secure the future controllability of the Debt, by obtaining the loans for short periods only, always looking forward to the time, after the return of peace, when the whole might be funded, at moderate rates of interest, in bonds redeemable at the pleasure of the government. That time has already arrived; much the larger part of the American debt exists in a state which admits of immediate redemption. We now have the opportunity, so to speak, of borrowing nearly the whole Debt over again, issuing new obligations in place of those cancelled, and at such reduced rates as the public credit, and the financial wisdom of the administration, may enable us to obtain.

But even the attempt to secure the privilege of reducing the rate of interest on the loans at an early day was not carried out without serious errors. The Secretary did not keep in mind the obvious truth, that a debt is controllable when it *may be* soon paid off at par, but that it becomes incontrollable in the worst sense when it *must be* so paid. The right method, of issuing

bonds which may be redeemed in five, but need not be redeemed for twenty years, or of issuing three-year Treasury notes, convertible at maturity into these Five-twenty bonds, was not hit upon till a heavy amount of debt had been contracted in *short loans*, which matured while the war was still in progress, and the difficulties of the Treasury were at their height. Under the first loan authorized, 140 millions were issued in Treasury notes at over seven per cent, positively to be repaid in three years. Accordingly, in the summer of 1864, when both our military and financial difficulties were at their worst, when a million of men in arms were to be provided for, and the Secretary was at his wits' ends in the attempt to obtain funds for the exigencies of the day and hour, means had to be procured by him for the repayment of this great loan, matured, though only three years old. In fact, they were not paid, but were allowed to lie over, the holders having the option of exchanging them for 6 per cent bonds payable in twenty years.

As if to push this system of short loans to the extreme, this same Loan Bill of July, 1861, authorized a further issue of fifty millions, in notes *payable on demand*, and receivable for all dues to the government. Of course, such a loan was only a mode of anticipating the slender proceeds of the revenue for the coming year; it allayed the hunger of the Treasury in July and August, only to raise that hunger to actual famine in November and December. After the suspension of specie payments, which took place the next winter, these demand notes were quickly absorbed in the payment of customs duties, thereby depriving the government of the receipt of so much gold coin.

But the great blunder in the management of the finances during the war, and one which, in its evil effects, not only on the accumulation of National Debt, but on the credit, the morality, and the general welfare of the whole people, far surpassed the worst errors of English or French financiers, was the depreciation of the currency through the excessive issue of Paper Money. As the Debt, at the beginning of July, 1862, when the depreciation first became considerable, was only about 500 millions, it appears that about 2,000 millions have been borrowed by the government in this depreciated currency. This immense sum, borrowed in paper dollars, never, during the next three years, worth more than

77 cents in coin; for a long period, not more than 62½ cents; for one equally long, about 50 cents; and for months, not more than 40 cents, — the government has covenanted to repay, in a short time, by an equal number of gold dollars, each worth 100 cents. The precise amount of the loss, being unnecessary accumulation of Debt, which the country has thus sustained, cannot be ascertained; for we know not the exact dates on which the loans were received and the moneys disbursed. But since the Treasury was obviously obliged to borrow most when the depreciation was greatest, — except, indeed, the heavy loans obtained in the spring of 1865, — it will be a safe, though a very rough, estimate to take the mean of the four values of the paper dollar which have just been mentioned — that is, about 57 cents — as the average value of the currency in which four fifths of the National Debt was contracted. In other words, the Treasury received about 1,140 millions, and must pay back 2,000 millions. This is a little worse than English financiering during the long French war; for the nation, in that case, received a little more than 58 on the 100, whereas we got only 57.

But this is not all. On the fictitious capital, or artificial enlargement of the Debt, the British treasury pays but a very low rate of interest, — only three per cent; the lowness of this rate, in truth, having been the inducement for the creation of the fictitious capital. But on the larger portion of its Debt, the United States reap no such compensation. The Treasury subjected itself to the humiliation of borrowing in one currency, and paying interest on the loan in another. It borrowed paper dollars; it bound itself to pay interest on them in coin, and at the full market rate of interest. In a very roundabout way, the Secretary contrived to commit the very blunder which he was most anxious to avoid, — that of precluding the possibility of reducing the rate of interest after the termination of the war. Most of the stock bears interest at 6 per cent, and this rate cannot be reduced, except by paying off the bonds at par, or by a breach of the public faith. But as 2,000 millions of stock were, in fact, sold for what was equivalent to only 1,140 millions in coin, the country is actually paying 10½ per cent interest on the whole sum. The English sold their stock at an avowed discount of 42 per cent, and nominally pay 3, but really over 5, per cent in-

terest. The American Treasury discounted 43 per cent under the thin disguise of a depreciated currency, and actually pay 10½, under the guise of 6, per cent interest.

I propose now to offer some considerations in favor of contracting and paying a National Debt only in the form of *short annuities*, not exceeding twenty-five years in duration, so that the whole may always be paid off within the lifetime of the generation that contracted it. This plan, I shall endeavor to show, offers the following advantages: —

1. It avoids altogether the very serious objections which may be made to the alleged right of any society or body politic to bequeath its own voluntarily incurred debts to the generations which are to come after it, or to impose any pecuniary obligation upon those who are not yet in existence, and are therefore incapable of assuming the burden by their own consent.

2. It materially lessens the risk of future repudiation or bankruptcy, and thus strengthens the public credit, thereby continually increasing the facility of borrowing at lower rates of interest.

3. It has all the advantages of a Sinking Fund, the Debt being thus subjected to a constant and uniform process of liquidation, while it entirely avoids the risk to which a Sinking Fund, properly so called, is always liable, of being diverted, under any considerable emergency, from its original purpose, and applied to the state's present wants.

4. The saving in the rates of interest effected through all these advantages will be so considerable, that the yearly payment on the short annuity probably will not exceed, and may even be considerably less than, the corresponding payment on a perpetual annuity, so that the debt will be entirely discharged in twenty-five years with no greater effort than would otherwise be necessary merely to pay the annual interest on it forever.

5. It will materially simplify the fiscal transactions of the government, principal and interest being fused together into one sum; while the annual payments on each separate annuity, whether of large or small amount, being made divisible in the manner of coupons, each being separately negotiable at a longer or shorter time before it becomes due, the market will be constantly supplied with every form of stock convenient for investment, according to the various wishes and necessities of different capitalists.

Terminable annuities for long periods, as for one hundred years, are usually found not to be desirable forms of investment; and the experience of the British government proves that there is no considerable demand for them. Otherwise, funding in such annuities would be a very eligible mode of liquidating public debt by a process so gradual as hardly to be perceived; though, from the length of the term employed, it would still be open to the serious objection of entailing upon future generations a burden which does not rightfully belong to them. An annuity of $1,000 for one hundred years, supposing money to be earning 4 per cent, is worth $24,500, while a perpetual annuity of the same amount is worth but $25,000; in other words, to increase the annual payment less than one twelfth of one per cent would be, in this mode of funding, to cancel the whole debt in one hundred years, instead of allowing it to continue forever. But corporations and individuals looking out for permanent investments do not willingly purchase into a constantly diminishing fund. "Even the subscribers to a new loan, who generally mean to sell their subscription as soon as possible, invariably prefer a perpetual annuity," redeemable only at par, at the option of the debtor, "to an irredeemable annuity for a long term of years, of about equal amount. The value of the former being always the same, or very nearly the same, it makes a more convenient transferable stock than the latter."

It might seem that the same objection would apply, and even with increased force, to the plan of funding in annuities of only twenty-five years' duration. And so it would, if, by this means, the term of full repayment were not brought within the ordinary limit of the lender's own life, so that he might himself reasonably expect to see both the beginning and the end of the transaction; and if, also, the recent invention of coupons did not permit the distinct annual payments on any one annuity to be severed from each other, and then separately bought and sold. In this way, almost every conceivable form of investment, not exceeding a quarter of a century in duration, might be offered in the stock-market, to suit the different fancies of purchasers.

Any one, for instance, might purchase a single instalment of an annuity of large amount, say $50,000, to be paid after the lapse of twenty-five years; and also a complete annuity of small amount,

yielding him a yearly income of $2,500 for the same period. The price of the former, considering money to be worth 5 per cent, would be about $14,756; that of the latter, reckoning in the same manner, about $35,244. The aggregate of these two sums is $50,000, showing, of course, that the result for the purchaser is precisely the same as if he had invested this last sum in perpetual annuities at the same rate of interest.

Accordingly, this method combines every possible advantage of both systems. The lender who wishes to invest on the old plan, of annual payment of the interest only, with final reimbursement of the principal in one sum; can do so, with the benefit superadded of the constant operation of a Sinking Fund, one twenty-fifth part of the whole Debt being necessarily liquidated every year; he has also the option, if he prefers the other system, of waiving the annual payments of interest, and of allowing his investment steadily to accumulate at compound interest, without the delay, inconvenience, and hazard of making annually fresh investments; or, thirdly, should exceptional circumstances render such a course desirable, he may sink the whole sum in a terminable annuity for any period not exceeding twenty-five years.

The annuities may be made either of large or small amount, from $50 a year up to $1,000,000. On those of some magnitude — say, for $1,000 a year, or any larger sum — the twenty-five annual payments being separable from each other as coupons, one or more of these separate amounts, payable at any future year, might be offered to the purchaser, or he might buy a whole annuity together, at his option. Thus, any person wishing to invest money may buy a coupon of any amount, due ten, fifteen, or twenty-five years hence; and as he will buy it for its *present value*, his investment will accumulate at compound interest for the given period. Moreover, he can always sell it at its *present value*, namely, the sum first paid for it, and compound interest on that sum for the time which has elapsed between his purchase and his sale. Or he may buy a complete annuity of any amount, and for any number of years not exceeding twenty-five. Or he may purchase a deferred annuity, not to begin for five or ten years, and then to run for the remainder of the period. In either of these cases, his capital will be invested at compound interest on government security.

Lastly, I will give one other example to show that the working

of this system will enable any capitalist, who is desirous of doing so, to make his investment on the old plan precisely as if that alone were in operation. Suppose he wished to invest $100,000 in government stock for ten years only. In perpetual annuities at 5 per cent, this sum would yield him an annual income of $5,000; and when the ten years have elapsed, *if the market price of the stock has not meanwhile declined*, he may receive back his capital unimpaired. But he can never guard himself against the numberless contingencies in public affairs, which may so depress the price of the stock, that, if forced to sell at the time first proposed, he might lose a considerable part of his investment. By the new method, he would purchase from government the right to receive $100,000 without interest, ten years hence, at the present value of that sum, which is, compounding interest at 5 per cent, $61,391.33; and no contingency, (except that of the nation becoming bankrupt, to which he would be equally exposed in the former case,) could prevent him from receiving the whole of that sum at the time agreed upon. He would also buy an annuity of $5,000 for ten years, for which he would pay $38,608.67. The sum of these two purchases is $100,000, being the same amount, and yielding precisely the same results, as if invested on the old plan.

But far the most valuable, and, as I believe, the most popular, feature of the plan, would be the opportunity which it would afford of making investments to any extent, and for any time less than twenty-five years, in the form of steady accumulation at compound interest. I know not whether the economical or the moral advantages of this mode of funding would be the greater. Nothing could more effectually stimulate the habit of frugality, the effective desire of accumulation, and the consequent rapid growth of capital, than to keep the market fully supplied with securities of undoubted permanence and value, the holders of which, waiving the receipt of annual interest, would find the fruits of their industry and economy steadily increasing in geometrical ratio, without trouble or watchfulness on their part, in full proportion to the time, and for such time only, as that during which they originally proposed to keep them, yet capable of use as a pledge for obtaining loans, or of immediate negotiation and sale, should a change of circumstances or plans make such realization desirable. Individuals and corporations having frequently considerable sums to invest for a few

years, with a view only to safety and constant accumulation during this period, and desirous of allowing as little of their capital to remain unemployed as possible, but at the same time not to place it entirely out of reach even for a day, would find in the opportunity of purchasing into such stock the perfect fulfilment of their wishes. Moreover, as the peculiar advantages of investments at compound interest can be reaped to the full extent only by those who retain them unchanged for a considerable length of time, such securities would, in proportion to their amount, be less frequently offered for sale or bought for short periods, and therefore would afford less stimulus and nutriment to the blind passion for speculation and reckless adventure, which has too closely assimilated our stock-markets to the great gambling-hells which are often appropriately placed close beside them. We have had recent exemplification of this truth in the fact, that Treasury notes at compound interest, though issued to the amount of nearly 220 millions, and expressly made legal tenders, like ordinary money, soon disappeared almost entirely from circulation, and were held as the most permanent portion of their reserves by banks and large capitalists.

In truth, the creation of this form of stock would answer nearly all the purposes, and afford even more than the ordinary advantages, of Savings' Banks, Life Insurance offices, and other Trust companies, besides offering the most eligible investments for the reserve funds of these institutions. The rapid growth of these establishments, and the prodigious extent of the field already covered by their operations, indicate the commonness of the desire, among the industrious and the frugal in our community, to invest their savings for accumulation at compound interest. To satisfy this desire is the peculiar work which such institutions have to do; but their ordinary expenses are considerable, their operations are impeded by rivalry with each other, investments once made in them for a fixed period cannot be withdrawn without loss, and the security which they afford is not always unquestionable. In each of these respects, investment in them would be less desirable than in United States stock accumulating in the same manner, and with the certainty of an equal, or even higher, rate of interest. In transactions which may continue for a quarter or half of a century, no prudent company can bind itself to pay a higher rate

than four per cent; the government would pay four and a half or five per cent. What is called an "Endowment policy," the covenant being to repay the advances at a fixed period, though the life may not have terminated, has become a favorite form of insurance, the main purpose evidently being to invest savings at compound interest for some years, and only a secondary one to make provision for others in view of the uncertainty of life. An easier, more profitable, and perhaps a safer, mode of accomplishing this chief object, would be to purchase, at its present value, some future instalment of a government annuity.

The only remaining inquiry is, whether the annual charge of the National Debt funded in this manner would so much exceed the ordinary interest payable on it in perpetuity, as materially to increase the difficulties, or offset the advantages, of the proposed system. This can easily be answered. The annual payment on one million of dollars, vested in a twenty-five year annuity at 5 per cent, would be $ 70,952.45, or a little less than 7.1 per cent; as our interest-bearing Debt is now about 2,000 millions, the annual charge of it at this rate would be 142 millions. At 4½ per cent, the payment each year on one million would be but $67,439, or about 6.74 per cent; and the yearly charge of the whole debt would be less than 135 millions. As the annual charge of the National Debt in its present form is about 116 millions, it is evident that the excess of 26 millions a year at 5 per cent, or less than 19 millions at 4½ per cent, would be the cost of getting rid of the debt entirely in twenty-five years, over its present annual charge if kept up forever.

The practicability of funding the debt in such an annuity, at one or the other of these rates, can hardly be doubted; and if it were stipulated that the annual payment should always, as at present, be payable in gold, and that the whole revenue from customs duties should be permanently appropriated for this purpose, leaving the ordinary expenses of government to be defrayed out of the excises or internal revenue, the funding might be possible at the lower rate; and after the expiration of a few years, the amount of the debt being then proportionally diminished, it might be done even at 4 per cent. The Ten-forties, a 5 per cent stock, now amounting to over 194 millions, could be immediately converted into the new form, to the great advantage of its owners; as

its repayment would thus be secured in twenty-five years, or about ten years less than its present period of necessary liquidation.

But the expediency of the proposed system, as it seems to me, does not depend on the mere question of immediate pecuniary loss or gain, but on far graver considerations regarding the preservation of the public faith, and the evils resulting from the perpetuity of a great National Debt. On the whole, there are the same motives for a government, as for an individual, to endeavor to get rid of debt. In itself considered, debt is both a discredit and an encumbrance. It detracts from the weight and influence of the nation in its relations with foreign powers, and nourishes discontent at home, through the long-continued pressure of taxation. The trouble and cost of its management embarrass the administration, and tend even to corrupt and degrade it, through the large increase of its financial concerns. If heavily in debt, a country is able to meet the exigencies of war only with its right arm in a sling. One reason why the American people passed comparatively unharmed through the fiery trial to which they were recently subjected was, that they were not burdened with an oppressive Debt at the outset. With the great load which they are now carrying, the recurrence of a calamity similar in kind, though not equal in extent, would lead inevitably to a breach of national faith and a long train of financial disasters.

The payment of the interest alone, at 6 per cent, in little over sixteen years, requires the receipt and disbursement of as large a sum as the principal. Especially in a republican government, where the virtues of simplicity, purity, and frugality are of high account, being indissolubly linked with the preservation of the state, it is of the utmost importance to restrict the sphere of the national finances, and to avert even the suspicion of corruption and fraud. The period of the South Sea Bubble in England and of Law's Mississippi scheme in France, about 1715, was one not merely of pecuniary ruin, but of degradation and shame, both in the councils of the state and in private life; of almost universal forfeiture of reputation and self-respect, and a permanent deterioration of the national character. The origin and the characteristic feature of both these calamitous series of events was gambling in the public stocks, incited by the then recent institution of a permanent National Debt. The gigantic scale on which our na-

tional finances have been conducted for the last nine years appears to have exerted an equally disastrous influence on the tone of domestic politics, the morals of commerce, and the reputations of those who have gathered enormous wealth out of the perils and losses of the state. It would be sad to believe, that the burden which brings with it such consequences is fastened upon us forever.

The reason commonly alleged to justify a nation in contracting a great Debt, and postponing indefinitely the time of its payment, is, that future generations, as they reap the benefits and share the security which have been obtained by the conflict, may also bear their share of its burdens and cost. We have triumphed, not only for ourselves, but for posterity; then let posterity help to pay the bill. But this argument, frequently repeated as it is, is a misconception and a blunder. What possible difference does it make to my heirs, whether I leave them an estate worth $50,000 burdened with a debt of $10,000, or an unencumbered property worth $40,000? In either case, whether the Debt is paid off or not, posterity must bear their full share of it, either by receiving their whole inheritance thus encumbered, or by receiving a free estate which has been cut down in size in order to pay off the encumbrance. In fact, the property has been actually expended and destroyed in carrying on the war; the powder has been fired off, the shells bursted, the fortifications destroyed, the ships and houses burned, the men killed. As the *population* of the country can never be so large as it would have been, had not these lives been sacrificed; so its *wealth* can never be so great as it would have been, had not this amount of property been destroyed.

English Political Economists, almost with one voice, for more than a century, have strongly censured the practice of their own government in adopting the Funding System by putting the debt into the form of perpetual annuities. They condemn the system as alike indefensible in theory and ruinous in its consequences. In his Political Essays, published in 1752, Hume alludes with praise to the common practice of antiquity in making provision, during peace, for the necessities of war, "without trusting to extraordinary impositions, much less to borrowing in times of disorder and confusion." "On the contrary," he says, "our modern

expedient, which has become very general, is to mortgage the public revenues, and to trust that posterity will pay off the encumbrances contracted by their ancestors; and they, having before their eyes so good an example of their wise fathers, have the same prudent reliance on *their* posterity; who, at last, from necessity more than choice, are obliged to place the same confidence in a new posterity. But not to waste time in declaiming against a practice which appears ruinous beyond all controversy, it seems pretty apparent that the ancient maxims are, in this respect, more prudent than the modern, even though the latter had been confined within some reasonable bounds, and had ever, in any instance, been attended with such frugality, in time of peace, as to discharge the debts incurred by an expensive war.

"It is very tempting to a minister to employ such an expedient as enables him to make a great figure during his administration, without overburdening the people with taxes, or exciting any immediate clamors against himself. The practice, therefore, of contracting debt will almost infallibly be abused in every government. It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London, than to empower a statesman to draw bills, in this manner, upon posterity."

Among the evils of the system, which he proceeds to enumerate, are the following: "The taxes which are levied to pay the interest of these debts are apt either to heighten the price of labor, or to be an oppression on the poorer sort. As foreigners possess a great share of our national funds, they render the public in a manner tributary to them, and may in time occasion the transport of our people and our industry. The greater part of the public stock being always in the hands of idle people, our funds, in that view, give great encouragement to a useless and inactive life.

"But though the injury that arises to commerce and industry from our public funds will appear, upon balancing the whole, not inconsiderable, it is trivial in comparison of the prejudice that results to a state considered as a body politic, which must support itself in the society of nations, and have various transactions with other states in wars and negotiations. The ill there is pure and unmixed, without any favorable circumstance to atone for it; and it is an ill, too, of a nature the highest and most important. I must confess," he adds, "when I see princes and states fighting

and quarrelling amidst their debts, funds, and public mortgages, it always brings to my mind a match of cudgel-playing fought in a China-shop.

"There seems to be a natural progress of things which may guide our reasoning. As it would have required but a moderate share of prudence, when we first began this practice of mortgaging, to have foretold, from the nature of men and of ministers, that things would necessarily be carried to the length we see, so, now that they have at last happily reached it, it may not be difficult to guess at the consequences. It must, indeed, be one of these two events: either the nation must destroy public credit, or public credit must destroy the nation. It is impossible that they can both subsist after the manner they have been hitherto managed in this, as well as in some other countries."

Adam Smith, the founder of the science of Political Economy, is not less explicit in his condemnation of the Funding System. "The progress of the enormous debts," he says, "which at present oppress, and will in the long run probably ruin, all the great nations of Europe, has been pretty uniform. Nations, like private men, have generally begun to borrow upon what may be called personal credit, without assigning or mortgaging any particular fund for the payment of the debt; and when this resource has failed them, they have gone on to borrow upon assignments or mortgages of particular funds."

After specifying various acts of Parliament under which loans were obtained up to 1717, he goes on to observe: "in consequence of these different acts, the greater part of the taxes, which before had been anticipated only for a short term of years, were rendered perpetual as a fund for paying, not the capital, but the interest only, of the money which had been borrowed upon them by different successive anticipations.

"Had money never been raised but by anticipation, the course of a few years would have liberated the public revenue without any other attention of the government besides that of not overloading the fund, by charging it with more debt than it could pay within the limited term, and of not anticipating a second time before the expiration of the first anticipation. But the greater part of European governments have been incapable of those attentions. They have frequently overloaded the fund, even upon the

first anticipation; and when this happened not to be the case, they have generally taken care to overload it by anticipating a second and a third time, before the expiration of the first anticipation. The fund becoming in this manner altogether insufficient for paying both principal and interest of the money borrowed upon it, it became necessary to charge it with the interest only, or a perpetual annuity equal to the interest; and such improvident anticipations necessarily gave birth to the more ruinous practice of perpetual funding. But though this practice necessarily puts off the liberation of the public revenue from a fixed period to one so indefinite that it is not very likely ever to arrive, yet as a greater sum can in all cases be raised by this new practice than by the old one of anticipations, the former, when men have once become familiar with it, has, in the great exigencies of the state, been universally preferred to the latter. To relieve the present exigency is always the object which principally interests those immediately concerned in the administration of public affairs. The future liberation of the public revenue they leave to the care of posterity.

"The practice of funding has gradually enfeebled every state which has adopted it. The Italian republics seem to have begun it. Genoa and Venice, the only two remaining which can pretend to an independent existence, have both been enfeebled by it. Spain seems to have learned the practice from the Italian republics; and (its taxes being probably less judicious than theirs) it has, in proportion to its natural strength, been still more enfeebled. France, notwithstanding all its natural resources, languishes under an oppressive load of the same kind"; [and the disorder of the finances which it occasioned, as we all know, was the immediate cause of the terrible Revolution of 1789, the first outbreak of which Smith lived long enough to witness.]

"When national debts," continues Smith, "have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought about at all, has always been brought about by a bankruptcy; sometimes by an avowed one, but always by a real one, though frequently by a pretended payment."

In view of these evils and dangers, the English Parliament have

very recently, under the lead of Mr. Gladstone, made a feeble attempt to get rid of a small fraction of their National Debt, by converting it from perpetual into terminable annuities.

The fallacy of supposing that the payment of the interest is only from the right hand to the left, the nation as a whole being none the poorer for it, and even that the property of the country is increased by the whole amount of the National Debt, is thus ably exposed by Justice Blackstone in his Commentaries. "By means of our National Debt," says he, "the quantity of the property in the kingdom is greatly increased in idea, compared with former times; yet, if we coolly consider it, not at all increased in reality. We may boast of large fortunes and quantities of money in the funds." But where does this money exist? It exists only in name, in paper, in public faith, in parliamentary security; and that is undoubtedly sufficient for the creditors of the public to rely on. But then, what is the pledge which the public faith has pawned for the security of these debts? The land, the trade, and the personal industry of the subject, from which the money must arise that supplies the several taxes. In these, therefore, and in these only, the property of the public creditors does really and intrinsically exist; and, of course, the land, the trade, and the personal industry of individuals are diminished in their true value just so much as they are pledged to answer. If A's income amount to £100 per annum, and he is so far indebted to B that he pays him £50 per annum for his interest, one half of A's property is transferred to B, the creditor. The creditor's property exists in the demand which he has upon the debtor, and nowhere else; and the debtor is only a trustee to his creditor for one half of the value of his income. In short, the property of a creditor of the public consists in a certain portion of the national taxes; by how much, therefore, he is the richer, by so much the nation, which pays these taxes, is the poorer."

Coming down nearly to our own day, far the highest authority that can be cited is that of Ricardo. To a knowledge of the theory of Economical science, and a power of disentangling its general principles, and of abstract reasoning concerning them, which even Adam Smith never equalled, he added the practical knowledge of the subject which can be acquired only from long familiarity with the most intricate transactions of commerce and finance. He amassed his immense fortune solely by trading on the Stock Ex-

change, with whose operations he had been familiar even from boyhood. From 1808 to 1823, when he died, his voice was more potential than that of any other man in determining the commercial and financial policy of England. The famous Bullion Report of 1810 was mainly his work, though he did not write it; the Resumption of Cash Payments by the Bank of England in 1819 was guided entirely by his counsel. Among statesmen, this wealthy Jew stock-broker counted Canning, Huskisson, and Sir R. Peel as his pupils; among Political Economists, McCulloch and John S. Mill have been his faithful disciples. Let us see what he thought of the Funding System, on which he published a separate essay.

There are three modes, he says, in which a nation can raise an additional sum of twenty millions wherewith to defray the military and naval expenditures of the first year of a war. First, by additional war-taxes, enough to raise the whole sum within the year, from which taxes the country would be totally freed on the return of peace; secondly, the money might be borrowed and funded, and then, with interest at five per cent, the country would be loaded forever with one million per annum taxes for the first year of war, an additional million for the second year's expense, and so on for every year the war might last, no relief arriving during peace, or in any future war. Should the war continue twenty years, the country would be perpetually encumbered with taxes of twenty millions a year, and would have to repeat this course on the recurrence of a new war. The third course would be, to borrow the required twenty millions a year as before, but to raise by taxation, not merely one million, but 1,200,000 for each year, the surplus of 200,000 to be invested as a Sinking Fund, which would accumulate rapidly enough to pay off the whole debt in forty-five years.

"Of these three modes," he says, "we are decidedly of opinion that the preference should be given to the first. The burdens of the war are undoubtedly great during its continuance, but at its termination they cease altogether. We are too apt to think that the war is burdensome only in proportion to what we are, at the moment, called to pay for it in taxes, without reflecting on the probable duration of such taxes. It would be difficult to persuade a man possessed of £20,000, or any other sum, that a perpetual payment of £50 was equally burdensome with a single tax of

£1,000. He would have some vague notion that the £50 per annum would be paid by posterity, and would not be paid by him; but if he leaves his fortune to his son, and leaves it charged with this perpetual tax, where is the difference whether he leaves him £20,000 with the tax, or £19,000 without it? This argument of charging posterity with the interest of our debt, or of relieving them from a portion of such interest, is often used by otherwise well-informed people; but we confess we see no weight in it.

"If an individual were called upon to pay £1,000 to the income-tax, he would probably endeavor to save the whole of it from his income; he would do no more if, in lieu of this war-tax, a loan had been raised, for the interest of which he would have been called upon to pay only £50 income-tax. The war-taxes, then, are more economical; for when they are paid, an effort is made to save to the amount of the whole expenditure of the war, leaving the national capital undiminished. In the other case, an effort is made to save only to the amount of the interest of such expenditure, and therefore the national capital is diminished in amount. The usual objection made to the payment of the larger tax is, that it could not be conveniently paid by manufacturers and land-holders, for they have not large sums of money at their command. We think that great efforts would be made to save the tax out of their income, in which case they could obtain the money from this source. But suppose they could not, what should hinder them from selling a part of their property for money, or from borrowing it at interest? That there are persons disposed to lend is evident from the facility with which government raises its loans. Withdraw this great borrower from the market, and private borrowers would be readily accommodated." [During the war of the Rebellion, private borrowers obtained loans on far easier terms than the government could. The credit of the latter was so low, that for a long time it really paid, and is now paying, from 9 to 14 per cent interest, while private merchants obtained all they needed at 7 per cent. Then the country would have saved from 2 to 7 per cent, even if taxation had been made so heavy as to compel some contributors to borrow money in order to pay their taxes.] "In the case of a loan, A advances the money and B pays the interest, and everything else remains as before. In the case of war-taxes, A would still advance the money and B pay the

interest, only with this difference, he would pay it directly to A; now he pays it to government, and government pays it to A.

"In every view of this question, we come to the same conclusion, that it would be a great improvement in our system forever to get rid of the practice of funding. Let us meet our difficulties as they arise, and keep our estates free from permanent encumbrances, of the weight of which we are never truly sensible till we are involved in them past remedy."

"Under the firm conviction that nations will at last adopt the plan of defraying their expenses, ordinary and extraordinary, at the time they are incurred, we are favorable to every plan which shall soonest redeem us from debt; but then we must be convinced that the plan is effective for the object. This, then, is the place to examine whether we have, or can have, any security for the due application of the Sinking Fund to the payment of the debt."

After examining this question, he concludes: "It is, we think, sufficiently proved, that no securities can be given by ministers that the Sinking Fund shall be faithfully devoted to the payment of debt; and without such securities we should be much better without such a Fund. To pay off the whole or a great portion of the debt is, in our estimation, a most desirable object, if, at the same time, we acknowledged the evils of the Funding system, and resolutely determined to carry on our future contests without having recourse to it. This cannot, or rather will not, be done by a Sinking Fund as at present constituted, nor by any other that we can suggest; but if, without raising any Fund, the debt were paid by a tax on property, once for all it would effect its object. Thus, by one great effort, we should get rid of one of the most terrible scourges which was ever invented to afflict a nation; and our commerce would be extended without being subject to all the vexatious delays and interruptions which our present artificial system imposes upon it."

Among the English Economists of our own day, McCulloch is the oldest and best-known authority; and as his extreme conservatism tempts him to uphold every practice of the English government and people, his opinion of the Funding System ought to have great weight. "Every people involved in war," he says, "however just and necessary the contest may be, must sooner or later experience the effect of the waste of capital, or of the means of future produc-

tion, which it rarely fails to occasion. And it is clear that no scheme of finance can be bottomed on sound principles, which disguises these necessary consequences of war, and deceives the public with regard to their real situation. This, however, is notoriously the case with the Funding System. It is truly said to require no individual to make any extraordinary sacrifice at any particular period; and, in this respect, it bears a close resemblance to those most dangerous diseases which steal slowly and imperceptibly on the constitution, and do not discover their malignant symptoms until they have fastened on the vitals and vitiated the whole animal economy.

"The Funding System has been almost universally adopted, and it has uniformly been abused, and, how serviceable soever at first, has become, in the course of time, generally injurious. It was carried to a great extent in Holland; and we have already seen that it is to it, or rather to the excessive taxation in time of peace which it occasioned, that the low rate of profit in that republic, and the decline of her fisheries, manufactures, and commerce, are to be ascribed. '*Nous avons remarqué, que l'accroissement successif des impôts, et la nécessité de faire des emprunts, ont concouru, plus que toute autre cause, à faire décroître le commerce de la Hollande. C'est là une suite inévitable surtout des emprunts, parce qu'une paix ne mortifie pas les dettes de l'état. Tous les avantages d'une guerre heureuse ne bonifient les désavantages que l'état en souffre. Les peuples sont moins heureux, et l'état s'est affoibli.*'"

An avoidance of the Funding System is not only the true republican doctrine; we have a right to call it also the established American policy. The United States, hitherto, have always paid off their war debt within the lifetime of the generation that contracted it. The Revolutionary Debt was, in fact, fully discharged at least as early as 1817; for the National Debt still existing in that year ought to be considered as resulting from the purchase of Louisiana in 1803, and from the war of 1812. This last Debt was still more rapidly extinguished, for no portion of it remained unpaid in 1835. The country was then entirely free from debt, and even found itself encumbered with a surplus income. Thus far, also, we have been paying off the enormous debt contracted during the Great Rebellion at a rate which, if continued, would insure its extinction in about one generation. In July, 1865, it exceeded

2,783 millions; in February, 1870, it was less than 2,445 millions, thus showing an average annual diminution of about 74 millions. At this rate, even if taxation were cut down as rapidly as the annual charge for interest is diminished, the Debt would be extinguished in thirty-three years from 1870.

The value absorbed in loans raised at home is so much withdrawn from the capital employed in aiding productive industry within the country. This is an argument, which is strongly urged by Dr. Chalmers and Mr. J. S. Mill, in favor of raising within the year the whole of the supplies needed for war purposes, instead of obtaining them by an increase of the National Debt. Whatever is spent unproductively, they say, cannot but be drawn from capital or yearly income. "The whole and every part of the wealth existing in the country forms, or helps to form, the yearly income of somebody. The privation which it is supposed must result from taking the amount in the shape of taxes is not avoided by taking it in a loan. The suffering is not averted, but only thrown upon the laboring classes, — the least able, and who least ought, to bear it; while all the inconveniences, physical, moral, and political, produced by maintaining taxes for the perpetual payment of the interest, are incurred in pure loss. Whenever capital is withdrawn from production, or from the fund destined for production, to be lent to the state and expended unproductively, that whole sum is withheld from the laboring classes; the loan, therefore, is in truth paid off the same year by these classes; the whole of the sacrifice necessary for paying it off is actually made; only it is paid to the wrong persons, and therefore does not extinguish the claim; and paid by the very worst of taxes, — a tax exclusively on the laboring class. And after having, in this most painful and unjust of ways, gone through the whole effort necessary for extinguishing the Debt, the country remains charged with it, and with the payment of its interest in perpetuity."

CHAPTER XVIII.

TAXATION.

TAXATION is the equivalent rendered by a people to their government for preserving peace, enforcing justice, and aiding in various other ways the production of wealth. To the extent of the services thus performed, the government is a co-worker with the rest of the community, and therefore equitably claims its share of the products of each year's industry. The aggregate task is most economically performed through a Division of Labor, whereby one class of men devote themselves exclusively to making laws and administering them, thus enabling every other class to do its special allotted work without interruption, fear, or hindrance. In the case of the Post-Office, it is easy to see that the government renders a very important service for small compensation. If the work done by the tribunals of justice is not always so highly appreciated as it deserves, the reason is, that the feeling of security which they create is so widely diffused, and so seldom interrupted, that men are not aware how much it contributes to their happiness and well-being. Those who never have suits at law are quite as much indebted to the courts as those who frequent them, and therefore a tax upon the whole community rightly furnishes the means for their support. Arbitration is better than litigation, it is true; but litigation is still better than open strife and violence. Most of the other departments of government may fairly be considered as aids of the judiciary, or means of enforcing its decisions.

Taxation in the abstract, therefore, is eminently just and expedient. The only difficulty is, how to apportion it equitably among the various classes of the people, so that each may bear its rightful portion of the burden with the utmost possible ease and acquiescence. Adam Smith's four rules for the assessment and collection of taxes have been often quoted; but it must be confessed that they are vague and incomplete, and afford but little practical guidance for legislation. This was not his fault. As taxation needs to be applied under a great variety of circumstances, and the modes which have been contrived for applying it are numerous, and some of them complex and intricate, few rules can be laid

down which will not be found to admit many exceptions and limitations.

Adam Smith's first canon is, "The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. In the observation or neglect of this maxim consists what is called the equality or inequality of taxation."

Secondly, "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought to be clear and plain to the contributor and to every other person. Where it is otherwise, every person subject to the tax is put, more or less, in the power of the tax-gatherer." A still worse evil is, that the tax-payers cannot then make those nice calculations respecting future demands upon their resources, or the causes which will affect the prices of commodities and the future state of the markets, upon which success in any commercial or manufacturing enterprise largely depends. Adam Smith declares it to be proved from the experience of all nations, "that a very considerable degree of inequality is not near so great an evil as a very small degree of uncertainty."

Thirdly, "Every tax ought to be levied at the time, and in the manner, in which it is most likely to be convenient for the contributor to pay it. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he has occasion to buy, the goods, and as he is at liberty, too, either to buy or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconveniency from such taxes."

Fourthly, "Every tax ought to be so contrived as both to take out, and to keep out, of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state."

The first of these rules, as here stated without qualification, is far from being well founded. Taxation strictly proportioned to revenue or income would press with undue severity on the indigent

and the industrious classes; for the rich contribute out of their abundance, but the poor out of their living. Hence it is now admitted, on all hands, that the bare necessaries of life should not be taxed at all, while the articles which are properly regarded as comforts or decencies should contribute moderately, and luxuries should bear the heaviest imposts. Internal taxes are properly denominated excises, (*excisa*,) as they are the portion *cut off* from the value of commodities, or from the income of individuals, for the support of government. Now, the state has no moral right to cut off a portion of the poor man's loaf, but is fully justified in taking away some of the enjoyments of those who will yet have enough, and to spare. For this reason, a minimum of income is always declared exempt from taxation; what constitutes a minimum, must be determined by reference to the customs of the people and other circumstances of the case. Moreover, to lay equal burdens on the idle and the industrious, even if it were just, would be highly inexpedient, as it would discourage labor, and tend to dry up the resources of the state. Those who have nothing to lose have comparatively little need of protection; while wealth could not exist at all, except under the safeguard of the laws and those who administer them. In modern days, and in civilized communities, the machinery of government exists far more for the protection of property than of persons, and therefore property should bear nearly all the expense of maintaining that machinery. On the other hand, the indigent classes, by filling the army and navy, form the chief dependence of the nation in the case of war. Capitation or poll taxes are now seldom levied, and only at very low rates.

"Equality of taxation, as a maxim of politics," says Mr. Mill, "means equality of sacrifice. It means apportioning the contribution of each person towards the expenses of government, so that he shall feel neither more nor less inconvenience from his share of the payment, than every other person experiences from his." Now it is evident that a 5 per cent income tax imposes the necessity of far heavier sacrifices on a person having an income of only $1,000, than on another whose income is $10,000. In this country, it would cut off from the former most of the comforts, and, especially if he had a large family, some even of the necessaries, of life; while the latter would be restricted only in his

enjoyment of what may well be termed superfluities. The former would be prevented from making any provision against old age or other disability, or for the support of his family after his own death; while the latter could continue to amass capital by savings from income. Hence the proper sense to be put upon Smith's first maxim is, that "people should be taxed, not in proportion to what they have, but to what they can afford to spend." As a principle applicable to all taxes, McCulloch justly observes, that "equality of contribution is an inferior consideration. The distinguishing characteristic of the best tax is, not that it is most nearly proportioned to the means of individuals, but that it is easily assessed and collected, and is at the same time most conducive, all things considered, to the public interests."

Adam Smith's second maxim is so obviously correct as to need little comment. It has already been illustrated, (page 69,) in treating of the causes which favor the accumulation of capital. One of the greatest evils of the feudal system was the uncertainty as to the amount of the services due from the retainer to his lord, together with the uncertainty as to the time when they would be required. Frequent changes of the Tariff of customs duties and the taxes which produce the Internal Revenue, together with the perpetual fluctuation of prices caused by the state of the currency and the alterations of the banking system, are the heaviest discouragements which industry and capital have had to encounter, in this country, since 1862. The uncertainty thus created is an additional tax, a heavy and unequal one, which diminishes, instead of increasing, the receipts of the Treasury, and enhances the cost of every enterprise, and the prices of all commodities, by the necessary insurance against risk.

The third maxim is best illustrated by the advantages which have followed the establishment of the Warehouse system. Formerly, the duties on imported goods had to be paid at the moment of their arrival, or a bond with sufficient securities had to be given for their future payment. But in the interval between the time of ordering the goods and that of selling them to advantage in this country, the altered condition of the markets, at home or abroad, may have made it advantageous to export them again. This could not be done without sacrificing the amount already paid for duties; or, if a drawback of these were allowed, there

would still be the vexation and delay of passing the merchandise again through the custom-house, with all the requisite precautions against fraud. The duties being payable at once, and not by instalments, as the goods were sold for consumption, their price was increased by the loss of interest on the capital thus advanced. Taxes on consumption, such as all customs duties are intended to be, can be most conveniently paid at the moment of sale for consumption, the importer being only the intermediate agent between the foreign producer and the domestic salesman. In order to raise funds thus to pay the duties in advance, the importer was often compelled to sell his goods at a ruinous sacrifice, immediately on their arrival. The principal ports of the country were prevented from becoming *entrepôts* for foreign commodities awaiting a market, and the carrying trade thereby suffered great discouragement.

All these evils are now obviated by allowing the merchandise, when imported, to be lodged in the public Warehouses, under the joint locks of the importer and the government, where they may be kept without paying the duties, till it is found convenient to enter them for consumption at home, or to send them abroad again free of any charge but that for rent. Thus the goods are not taxed till they are sold; and as the purchaser then pays the duties, the importer is not compelled to make any advance of capital. As all customs duties, like other indirect taxes, are ultimately paid by the consumer, the most convenient moment for exacting them does not arrive till the goods are ready to be sold, when the tax immediately becomes a portion of their price. Such articles as tea, coffee, sugar, and spices can be imported only at certain seasons, and in large quantities. If every facility is afforded for storing them, and the duties are exacted only little by little, as they are withdrawn for use, the government obtains from them the largest possible revenue, and imposes the least possible burden on the real tax-payers.

Smith's fourth maxim, if fully carried out, requires that the taxed person should not be deprived either of money, or of any other advantage or means of comfort or indulgence, except so far as such privation directly and proportionally increases the revenue of the state. We are now considering tax-laws so far only as they are intended to fill the national Treasury; with their inci-

dental uses, to repress immorality or encourage domestic manufactures, we have at present nothing to do. Considered simply as a means of obtaining revenue, any tax is impolitic and unfair if it can be collected only at great expense; if it interferes with the taxed person's freedom of action and choice; if it violates his right of privacy, through a vexatious perquisition into the state of his affairs; and if it compels him either to give up altogether the consumption of the taxed article, or to resign the exercise of the taxed profession or trade. The whole cost of collection, it is evident, is a burden to the tax-payer, without any corresponding benefit to the state.

In this respect, stamp duties are perhaps preferable to all others. It costs but a trifle to manufacture the stamps, and consumers take good care to provide themselves with them for their own security, or to give legal validity to their proceedings. But excises or internal taxes, especially those on manufactures which can be prosecuted in a small way and at little expense, are very expensive to collect; for besides the direct cost of collection, a little army is constantly needed on the preventive service, to prevent evasion and illicit production. Customs duties are almost equally objectionable in this respect, as smuggling in such a country as the United States can never be entirely prevented, and may be carried so far as to make the tax virtually unproductive.

Most instructive, however, is the difference between high and low rates of tax, showing the superior productiveness of the latter. An exorbitant tax, by diminishing the consumption, or cutting it off altogether, and by offering, as it does, a heavy bounty on smuggling and other forms of evasion, inflicts privation or severe loss on the tax-payer, at the same time that it actually lessens the receipts of the government. Hence the noted saying, that, in political arithmetic, two and two do not make four. Addition to the rate of tax often occasions loss to the revenue, and diminution of it frequently causes a great gain. So far as the former result comes from lessening the consumption, the consumer is deprived of his former comforts and enjoyments, commerce is restricted, and the Treasury suffers without benefit to anybody. So far as it is produced by the increase of smuggling and other illegal and dishonest practices, the community are demoralized, and the consumer pays a heavy tax for the benefit of the smuggler and the cheat.

The history of the English revenue laws during the last half-century is rich in instruction on all these points. Sir Robert Peel and Mr. Gladstone earned their best fame as statesmen through the able measures which they devised and carried out, consisting mainly in the repeal of taxes or in diminishing their rates, to lessen the burdens of the people, to remove the causes of discontent, to put almost an entire stop to smuggling, and, at the same time, largely to increase the revenue. Up to 1845, the average duty in Great Britain on sugar was over 80 per cent *ad valorem;* the average quantity consumed by each person in the kingdom was then 16½ pounds, and the net revenue obtained from the article was less than five millions sterling. In 1855, the duty was reduced to about 40 per cent; and before five years had elapsed, the consumption rose to 38 pounds a head, considerably more than double its former amount, and the revenue was increased to seven millions sterling. In other words, as a consequence of lessening the rate of tax, the consumers had twice as much sugar, and the government 40 per cent more revenue. The earlier and higher rate was a flagitious violation of Adam Smith's fourth maxim; it diminished by one half the people's consumption of the commodity, not only without benefit, but with a positive and great loss, to the Treasury.

To prove that this was not an exceptional case, many other instances might be cited, like the following. As recently as 1830, the duty on tea was 2*s.* 6*d.* a pound, its average consumption was 1*lb.* 5*oz.* per head, and the revenue obtained from it was considerably less than four millions sterling. In 1859, the duty was reduced nearly one half; the average consumption soon rose to 2*lbs.* 12*oz.*, and the revenue was increased to six millions. The history of the coffee duty was very similar; when cut down one half, the consumption for each person was more than doubled, and the net revenue was augmented over 60 per cent.

As these facts were made notorious in books and the newspapers, it seems incredible that Congress should have blundered as wofully as it did in adjusting the details of the revenue system to the exigencies of a great war and a heavy National Debt. The supposition of the members appears to have been, that the greater the number of taxes imposed, and the heavier the rates, the larger would be the revenue. Hardly any articles were admitted into

the country free of duty, and the average rate on those which paid duty exceeded 48 per cent. Few professions, trades, or employments could be exercised without paying for a license, and few legal or commercial papers could be passed as valid without a stamp. Most manufactures were taxed, and some of them thrice over; first on the raw material, secondly on the process, and thirdly on the sales of the products; — to say nothing of the income tax ultimately levied on the net profits, or of the State and municipal taxes on the capital invested and the real estate occupied. Different sorts of taxation were made to offset and justify each other. Heavy burdens on domestic industry rendered necessary additional rates of duty on foreign productions; and as many of these imported articles were needed in the processes of manufacture, the cost of production was greatly enhanced, consumption fell off, and receipts into the Treasury were diminished as much as the people were oppressed. From 1864 to 1867, the United States were the most heavily taxed nation in the civilized world. The revenue collected by the government may not have been larger than it was in England; but the amount paid by the people was probably twice as great. This state of things, of course, could not be endured long. A reform commenced in 1867, which, though it has reduced the burden of taxation perhaps one half, is still far from having reached completion.

As the most striking instance that can be found of violation of all the principles of taxation which have yet been mentioned, take the inordinate assessment on distilled spirits. A heavy excise on spirits is always deemed proper, because it adds to the cost of a vicious indulgence, and has but little effect in diminishing the consumption, so that the returns to the revenue are very great. These two pleas, however, are not very consistent with each other; a tax which has no effect in lessening the consumption does not correct the bad habit, but only makes it worse by rendering it more costly. Considered solely as a revenue measure, the imposition of a very heavy tax on this article was a decided blunder. Its fruits were reaped, not to any great extent by the government, but by every smuggler who could paddle a canoe across the St. Lawrence with a keg of whiskey in its bows; by every keeper of a dramshop, who, at the expense of only a few dollars, could set up an illicit still in his cellar or kitchen; by every dishonest

trader, who could make a profit of over a dollar on the gallon by the sale of smuggled spirits, while his gains from the lawful traffic in the article were not a tenth part as large; even by most inspectors who were put to watch the distilleries, and who could obtain more thousands by shutting their eyes, than the government paid them hundreds for keeping them open. An army of coast-guards, informers, and detectives could not repress so gainful an illicit trade, surrounded by so peculiar facilities.

"Few governments," says McCulloch, "have been satisfied with imposing moderate duties on spirits, but partly in the view of increasing the revenue, and partly in the view of placing them beyond the reach of the lower classes, have almost invariably loaded them with such oppressively high duties as have entirely defeated both objects. The imposition of duties does not lessen the appetite for spirits; and as no vigilance of the officers or severity of the laws has been found sufficient to secure a monopoly of the market to the legal distillers, the real effect of the high duties has been to throw the supply of a large proportion of the demand into the hands of the illicit distiller, and to superadd the atrocities of the smuggler to the idleness and dissipation of the drunkard." Experience in the United States has fully confirmed the truth of this position.

Before any tax was imposed on the production of this article, it was estimated that about 90 millions of gallons were annually distilled in this country, one half for manufacturing and one half for drinking purposes, at an average cost of twenty cents a gallon. In 1864, the production being taxed at the rate of twenty cents a gallon for two thirds of the year, and sixty cents for the rest of the time, the proceeds of the tax exceeded 28 millions of dollars. For half of the next year, the tax was raised to $1.50, and then to $2.00; and the consequence was, that the demand for manufacturing purposes almost entirely ceased, and the revenue fell to less than 16 millions. Then it recovered to its former amount, but soon fell off again, till, in 1868, the revenue from this source but little exceeded 13 millions. The law was then altered, the rate was reduced to fifty cents, and in 1869, the proceeds of this tax were over 45 millions. Thus a reduction of the excise to one fourth of its former amount made the revenue nearly three and a half times as large. While the rate was at the highest, the average

price of the article in the market was less than the tax; that is, less than $2.00 a gallon, thus leaving nothing for the cost of manufacture. As there is no reason to believe that the demand for drinking purposes was sensibly diminished, even by the most exorbitant rate, it follows that the community were taxed on this one article, in 1868, about 90 millions of dollars, of which a little over 13 millions were received by government, and more than 76 millions by smugglers and cheats. The revenue service became utterly corrupt, and the morals of the people were seriously injured by the shameless parade, which was made before them, of enormous gains obtained by dishonest means.

The trade with Canada afforded one significant intimation of the manner in which the frauds were practised. The year before the war, the export of Indian corn into that country did not amount to two millions of bushels; but in 1863, before the tax on spirits had become excessive, this amount was suddenly increased to four millions and a quarter. As Canada usually produces grain enough for her own use, and even for export, the corn was certainly not needed for consumption there; but as distilling is there carried on to a great extent, the excise on spirits being very low, there can be no doubt that the corn was sent thither to be manufactured into spirits, which were then smuggled back across the line, and sold in our northern markets. To impose a tax of 90 millions of dollars on the people of the United States, chiefly for the benefit of Canadian distillers and smugglers, was certainly a remarkable feat of legislation.

The power of Congress to impose taxes is somewhat restricted by several provisions in the Constitution of the United States, one of which is, that "no tax or duty shall be laid on articles exported from any State." Another clause declares that "no capitation or other direct tax shall be laid unless in proportion" to the representative population, as determined by the census; and a third provides that "all duties, imports, and excises shall be uniform throughout the United States."

Two rules are thus laid down, — one of apportionment, applicable to all direct taxes, and the other of uniformity, which regulates those that are indirect. As the former makes population rather than wealth the measure of the tax to be levied, it bears rather harshly on those larger States, where the people are chiefly engaged

in agriculture; while the latter properly regards tax-payers in their individual capacity, and not as inhabitants of different States. But the first question to be answered is, Which are direct taxes, and which are indirect?

"A direct tax," says Mr. Mill, "is one which is demanded from the very persons who, it is intended or desired, should pay it. Indirect taxes are those which are demanded from one person, in the expectation and intention that he shall indemnify himself at the expense of another." Nearly all taxes on consumption, therefore, are indirect; for, though paid in the first instance by the importer, manufacturer, or producer, the whole burden of them ultimately falls on the consumer, through the enhancement of price which they occasion. They are nominally imposed on commodities, such as tea, coffee, distilled spirits, and the like, for the sake of apportioning the assessment among the persons who use these articles, and who are intended to be taxed to the extent of such use. It is often said that they are less burdensome than other imposts, because any person can avoid paying them by ceasing to use the taxed commodity, or to exercise the profession or trade which requires a license, or to give the receipts, deeds, or checks which need a stamp. True, he can thus avoid the direct payment of money to the Treasury; yet he does not thereby escape the burden of the tax, but only transforms it into a privation of accustomed indulgences, or of the gainful employment or act, which would otherwise be open to him. The tax is properly indirect only when it is laid on an article which the tax-payer intends to sell, since thus only can he be repaid by demanding a higher price for it. When the impost, however, is intended to reach commodities already in use, or which have passed out of the hands of the merchant into those of the consumer, it is evidently a direct tax. Such are what are called, in England, the Assessed Taxes. In the United States, certain articles enumerated in Schedule A of the tax-law, such as gold or silver watches, pianofortes, and pleasure yachts, subject the possessor of them to an annual tax.

A direct tax may be assessed either upon such commodities in use, the number and value of which are supposed to correspond in some measure to the wealth of him who owns them, or upon the person, property, or income of the contributor; for he cannot, in either of these cases, shift the burden upon anybody else. Such a

tax, because open and visible, an immediate demand upon the pocket by a summons to pay, is apt to create discontent. But an indirect tax is insidious, because concealed; we pay a higher price for the article, without thinking whether the increased expense is caused by a tax, or by the enhanced cost of production. Few persons in this country are at all aware how frequently and heavily they are now taxed, because they seldom see the tax-gatherer. But in truth, though invisible, he seldom leaves them. In every payment that they make they pay more, in every receipt of salary or wages they receive less, because this unseen Shylock always clutches his share. In every pound of sugar, salt, or tobacco that the people purchase; in every foot of gas that they burn; in every tool or implement that they use, — they pay a government tax. Every cup of tea, coffee, wine, beer, or spirits that is drunk, costs more because it is taxed. Lumber and iron are taxed, and we pay the tax in the form of heavier house-rent and a higher price of board. The very indirectness of the tax really makes it heavier; for its rate is increased by the number of hands through which it passes before it reaches the consumer, and by every evasion of it which escapes detection. And yet such taxes do not appear so burdensome as they really are, not only because they are hidden in the price, but because they are collected in amounts so small as to be almost imperceptible. The duties on tea, coffee, and sugar, yield an annual revenue exceeding 46 millions of dollars; but Mr. Wells, the Commissioner of the Revenue, calculates that the average cost of them to each consumer is only about four cents a week. This is a striking case to show the advantages obtained by strict conformity to Adam Smith's third rule.

The Constitutional restriction respecting the apportionment of direct taxes brings up a grave question respecting the legality of the income tax. This is unquestionably a direct tax, and therefore ought to be assessed in proportion to the representative population, as determined by the census. But it is not. It is assessed by the rule of uniformity, according to which an income of $10,000 pays precisely the same amount, of whatever State the owner of that income may be an inhabitant. This is just, but it is not Constitutional. As Massachusetts is a wealthy State, the aggregate income of her citizens is very large. For the year ending July, 1866, she paid 30 per cent more income tax than Ohio,

though, according to her representative population, she ought to have paid only about half as much. Pennsylvania paid only 43 per cent, though, according to the Constitution, she ought to have paid 143 per cent, more than Massachusetts.

According to the rule of interpretation which seems to have been practically adopted by Congress and the Secretary of the Treasury, that only is a direct tax which is assessed immediately upon the States in their political capacities as units, or upon real estate. Thus, the tax-bill of July, 1861, imposed what it called a direct tax of twenty millions upon the States, distributing the sum among them in proportion to their representative population. Ohio was thereby required to pay over $1,500,000, Pennsylvania over $1,900,000, and Massachusetts but little over $800,000; and each State was left to collect its own amount in any way that it saw fit, or to allow the officers of the national government to collect it by an assessment on lands and buildings, — that is, on real estate.

But no distinction is available, for purposes of taxation, between property and the income of that property. If a tax laid upon a farm is direct, a tax on the income or rent received for the use of that farm is equally direct. The same property and the same person is affected in either case; and it is only as yielding income that the farm is taxable at all. In England, the same assessment is called indifferently an income tax or a property tax.

It cannot be doubted, then, that the income tax, in its present form, is unconstitutional. All that can be said in favor of it is, that the article in the Constitution which prohibits it is practically obsolete, and ought to be repealed. This article was adopted only as part of a compromise, being intended as compensation for the rule which ascertains the representative population, by adding to the whole number of whites three fifths of the slaves. As there are no slaves now, this rule for apportioning the number of Representatives in Congress is obsolete, and ought to be abrogated, together with its appendage and offset, the rule for the apportionment of direct taxation.

A graver objection to the income tax is, that it is unequal and unjust, because temporary and contingent incomes are assessed at the same rate as those which are permanent and certain. A per-

son dependent entirely on a salary, or on professional earnings, the income in either of these cases being acquired by his daily labor, and terminating with his life, or even when age or infirmity incapacitate him for work, must contribute as much as one who receives the same amount annually from rents, dividends, or any form of invested capital, and is therefore not obliged to work for a livelihood. This is evidently unfair. The protection of persons and property is the object for which government exists, — is that for which we pay taxes as a compensation. If I own lands, buildings, railroad stock, etc., which yield me an income of $6,000 a year, the government protects my person and $100,000 of my property; if my neighbor's only income is one of the same amount, consisting in a salary, or his professional earnings from day to day as a physician or a lawyer, the government protects only his person; he has no property which needs to be guarded; he has none to bequeath to his children. Can it be said, then, that my neighbor and I contribute in proportion to our respective abilities, or in proportion to the aid and protection which we receive from the government, when we pay precisely the same income tax? Take another instance: A has $50,000 which he invests in a life annuity, giving him, at his age, $6,000 a year; B has $100,000, the whole of which he will leave to his heirs, and from which, for the present, he also receives $6,000 a year. Yet these two men pay the same annual sum under the income tax, though the property of one is just double that of the other, and he thereby receives twice as much protection.

The income-tax law, both of England and America, sanctions this monstrous inequality. Obviously the only fair method would be to capitalize these incomes, reckoning one class of them as perpetual annuities, and the other as terminable, ending at different periods, according to each party's expectation of life as determined by the tables of mortality; and then assess the tax in proportion to the capital as thus ascertained. The only objection to this method is, that it would render the assessment of the tax a complex, laborious, and uncertain process. But it is urged, that "the income which lasts only ten years pays the tax only ten years, while that which lasts forever pays forever." What is that to the purpose? Of course, when a thing ceases to exist, it must cease to be taxed. This is true even of what is called a

permanent income; for when the capital from which it was derived is lost or spent, the income can no longer be assessed. As one year, so far as the income tax is concerned, is precisely like another, if such a tax levied for one year is unequal and wrong, for a still stronger reason it is unequal and wrong when levied for any number of years. The prolongation of injustice is certainly no compensation for the injustice. It is an obvious truth, that income alone ought not to bear so heavy a burden as income and property united. The proper compensation would be that *mere* income should never be assessed separately, but a tax of corresponding weight should always be laid, at the same time, on the property from which *permanent* incomes are derived.

These considerations will help us to a right view of one capital feature of the income-tax system, as it was, in this country, whereby it was distinguished from the English law. Our system was a progressive one, the tax being increased, not merely in proportion to the amount of the income, but in a considerably higher ratio, three or four points being arbitrarily taken, at which the rate of taxation was made greater. All incomes below $600 a year were not taxed at all; those between $600 and $5,000 paid 5 per cent on the excess over $600; those between $5,000 and $10,000 paid 7½ per cent, and those over $10,000 paid 10 per cent, on the same excess. English writers and legislators, upholding the principle of their aristocratic institutions, which favor in every manner the accumulation of property in the hands of a few, censure our progressive system, on the ground that it is not taxation, but confiscation, of the wealth of the rich, and that it disheartens industry and frugality by taking away the encouragement to amass riches. This last argument has not much weight; for hardly any one will relax his efforts to obtain an income of more than $10,000 a year, by being made to see that he will have to pay annually 2½ per cent more tax than if he had only $6,000. The assertion, that an advancing rate of tax is of the nature of confiscation, would be true, if the advance were rapid, or were carried to a high point. To enact, for instance, that an income below $4,000 should pay nothing, but if over $5,000, it should contribute 20 per cent, and if over $10,000, 50 per cent, would be robbery, not taxation. Such a law would defeat its own end, since very few would be willing to accumu-

late more than $4,500 a year; surplus earnings beyond this point they would squander upon objects of mere caprice and extravagance, and the government would receive little or nothing. Hardly any one would be industrious or frugal, if all, or even if a very large fraction, of the fruits of industry and frugality were to be seized by their rulers. But that a rate which advances slowly, and soon attains a maximum, is neither unjust nor impolitic, is proved by the example of the English themselves; for they too exempt all incomes below £100 sterling from any tax. And this is just, for the true measure of one's ability to undergo taxation is not what he *has*, but what he can *spare*. The very poor can spare nothing, and those who are worth but little can spare less, *even in proportion to their income*, than those who are very rich. This principle is universally admitted in the case of indirect taxation; since all governments profess to tax *necessaries* very lightly, *comforts* moderately, and *luxuries* at a high rate. Then it is equally true for *all* taxation, whether direct or indirect. There can be no doubt, that a country clergyman or schoolmaster, with a salary of $1,500, who pays the government $25 a year, being 5 per cent on the excess over $1,000, is taxed quite as heavily in proportion to his abilities, as the man who annually pays $1,000, and has $9,000 left for himself.

An advancing rate is justifiable, therefore, if it advances slowly, and stops at a low point. The precise limits cannot be determined by any general rule; they must be fixed somewhat arbitrarily, by sound discretion and a large view of the circumstances of the case. As the rates of interest and profits are larger in any country, a higher and more rapid advance may be tolerated; because men are tempted to accumulate more according as the balance of profit remaining to them is larger. The English law stops the advance at so low a point as to be unjust to persons of moderate income, and to favor unduly the very rich. The American rule, equitable and expedient here, would act injuriously in England, where the rate of profit, on an average, is not half as large as in the United States. I say the English law is unjust to small incomes, because, as we shall soon see, the indirect taxes take away vastly more in proportion from the poor than from the rich. It is true, that the rich contribute something more through the heavily taxed luxuries which they consume, but not enough

to make up for the immense advantage which they enjoy in respect to the tax on necessaries and comforts; since most of the latter are objects of daily consumption, while great luxuries generally are of infrequent use, as they only serve purposes of ostentation, and they also endure a long while. As the income tax, then, so far as it presses on terminable and contingent incomes just as heavily as on those which are perpetual and certain, conceals real inequality and injustice under apparent uniformity; so, through its advancing rate on the larger incomes, it was really equal and equitable by ceasing to be uniform.

Even in this country, however, the advancing rate was kept up only for three years. In 1867, Congress extended the exemption from any tax to incomes of $1,000 a year, and made the rate uniform at 5 per cent on the excess of any income over that amount. Probably the tax will soon be abolished altogether, both in England and the United States; for, though a convenient impost for the government, as it may be made very productive, and as its collection involves but little trouble or expense, it is always unpopular; and it is practically unequal and demoralizing, because it holds out a strong temptation to contributors to make dishonest returns. The sources of income are rents, dividends, profits, and wages or salaries. All of these, excepting profits, are probably reported, or may be ascertained, with tolerable correctness. But the tax cannot be equitably assessed on profits, without demanding from each contributor a frank and honest statement of the results of his business for the preceding year. Such statements comparatively few persons are able or willing to make. The amount which they will be required to pay must appear to them as a sort of penalty on the scrupulousness with which their returns are made out, and as giving an unfair advantage to many who will be less scrupulous. Cases of intentional fraud and perjury may not be very numerous, though there will always be too many even of such, when the temptation is so strong. But men easily deceive themselves, when their own interests are deeply concerned. Out of the gross gains of the year, so large a portion may be charged off to replace supposed dilapidations of capital, wear and tear of machinery, or bad debts, that only a slender net income may remain to be taxed. "The income tax," says Goldwin Smith, "is a tax which ought to be

resorted to only in time of war, or in some national emergency which excites the national spirit as much as war. It is only when the national spirit is so excited that there is a chance of true returns. In ordinary times, the income tax is a tax on honesty, a premium on dishonesty, a corrupter of national, and especially of commercial honor."

Taxes on capital have been held to be far more objectionable than taxes on income, on the ground that the latter are made good out of the greater economy in his expenditures which they enforce upon the contributor, while the former, by impairing the fund that sustains labor and is necessary for production, dry up the very sources of the country's revenues. The argument is a good one; but I doubt if any taxes, whatever be their name, are ever paid out of capital, except those which are so exorbitant that they cannot be defrayed out of income. It is a great mistake to suppose, that, because taxes are rated proportionally to capital, therefore they must be paid out of that capital. So far as the contributor's means permit, he lumps together all the taxes which he is obliged annually to pay, however they may be denominated, and adds the aggregate to his ordinary necessary expenditures for the year, the whole to be defrayed out of his income, if practicable. In this country, nearly all the municipal taxes, and most of those collected by the individual States, are rated proportionally to the whole property of the respective tax-payers, including both real and personal estate; yet no one supposes these imposts are paid out of any other fund than that from which national taxes, most of which are indirect, are defrayed. Stamps affixed to legal documents for the transfer of property are called taxes upon capital, because the costliness of them is usually proportioned to the whole value of the property so transferred. But they are no more necessarily paid out of the capital, than are the fees of the lawyers who are employed to draw up those documents. Even a tax on legacies and inheritances, if moderate in rate, is usually paid, I suspect, out of the income, for the first year or two, of the estate received, the heir or legatee having a strong inducement to keep the nominal amount of his bequest or inheritance unimpaired. But if as high as 10 per cent, I admit the correctness of Ricardo's doctrine, as stated in the passage which I here cite from J. S. Mill.

"As Ricardo observes, if £100 are taken from any one in a tax on houses or on wine, he will probably save it, or a part of it, by living in a cheaper house, consuming less wine, or retrenching from some other of his expenses; but if the same sum be taken from him because he has received a legacy of £1,000, he considers the legacy as only £900, and feels no more inducement than at any other time (probably feels rather less inducement) to economize in his expenditure. The tax, therefore, is wholly paid out of capital; and there are countries in which this would be a serious objection. But, in the first place, the argument cannot apply to any country which has a National Debt, and devotes any portion of revenue to paying it off; since the produce of the tax, thus applied, still remains capital, and is merely transferred from the tax-payer to the fund-holder. And the objection is never applicable in a country which increases rapidly in wealth." There, the only effect of abstracting a portion of people's savings from income through a tax is to leave room for more savings, without thereby diminishing the rate of profit. In such case, what the taxes really do is to subtract from a person's means, not of comfort, but of enjoyment; the amount paid in taxes, if it were not taken for that purpose, would be employed in gratifying some want or taste which, at present, remains unsatisfied. As we now have a large National Debt, and capital is accumulated in this country more rapidly than anywhere else in the commercial world, it follows that no impost is objectionable here on the mere ground that it is a tax on capital.

A house-tax, as Mr. Mill remarks, "*if justly proportioned to the value of the house*, is one of the fairest and most unobjectionable of all taxes. No part of a person's expenditure is a better criterion of his means, or bears, on the whole, more nearly the same proportion to them. A house-tax is a nearer approach to a fair income-tax than a direct assessment on income can easily be; having the great advantage that it makes spontaneously all the allowances which it is difficult to make, and so impracticable to make exactly, in assessing an income tax; for if what a person pays in house-rent is a test of anything, it is a test, not of what he possesses, but of what he thinks he can afford to spend." Misers, indeed, would escape it in great part; but no taxes on expenditures can fully reach this unhappy class of persons. A

more serious objection is, that a larger and more costly house may be needed, not because the occupant has more means, but because he has a larger family. To this, however, Mr. Mill replies, like a true Malthusian as he is, that such an occupant could not complain, because having a large family is the person's own choice, and, "so far as concerns the public interest, is a thing rather to be discouraged than promoted," — a proposition in which few Americans will be apt to agree with him. In this country, apart from the ridicule which would follow the proposal of such a law, a tax upon bachelors would be far more equitable and expedient than a fine for having children. A man's life of celibacy, because it is too apt to be a selfish and even an immoral one, and as it avoids, to a considerable degree, taxation on expenditures, and contributes little to the national defence, might fairly be made to contribute much to the national Treasury.

The great objection to a house-tax is intimated in the proviso by which Mr. Mill's general remark is qualified; it could not be justly proportioned to the value of the house. Rent would be an insufficient means of ascertaining this value, as the more costly houses in this country usually are not rented at all, but are occupied by those who own them. The number and size of the rooms would not be a fair test, because there is great variety in the cost of the materials and the mode of construction. Houses also deteriorate by use, and are kept in different stages of repair. The younger Pitt tried to avoid these difficulties by putting a heavy assessment on windows, and thereby caused many windows to be entirely blocked up, and gave occasion to the satirical remark that he had put a tax upon daylight. Hearth-money was formerly collected in the sister kingdom, and the people complained that it put out half the fires in Ireland.

The considerations in favor of a house-tax show the gross unfairness of one provision in the law regulating the income tax in this country, whereby any tenant is allowed to deduct his rent from his taxable income, and one who occupies his own house is charged nothing for its annual value. The result is, that a comparatively poor man can deduct perhaps $200 from the sum on which he is to be assessed, while his wealthy neighbor secures an abatement which, in many cases, exceeds $5,000. Justice would demand that a fixed sum, not exceeding $300 a year, might be

deducted for rent by every householder; and then the yearly value of the house and grounds which he occupied should be added to his assessable income.

There is one tax imposed by our present Revenue Law which deserves high commendation, and admits of being largely increased in rate without becoming burdensome or creating discontent. I refer to the impost on legacies and successions to real and personal property, whether by will or inheritance. Leaving sums not exceeding $1,000 untaxed, one per cent on the whole value is made payable on coming into succession by every heir or legatee, if such person be a child, parent, brother, or sister, of the deceased; of two four, or five per cent, if more remote of kin; and of six per cent, if a stranger in blood, or a body corporate. Property passing to the husband or wife, however, is exempt from tax. In its main features, this assessment conforms to the present law in England upon the same subject; but the tax here is more equally and equitably distributed. Collateral succession has always been regarded as a proper subject for considerable taxation, a tax of one twentieth, or five per cent, being levied upon it by the old Roman law. Within the last half-century, political economists and philosophical jurists, almost with one voice, have argued strongly in its favor, and most of them advocate an increase of the tax, even to a very high rate. The reasons are obvious. Such a tax imposes a burden on nobody; from no person does it take anything which he before possessed; it does not even disappoint any reasonable expectation. The law merely steps in to determine the amount of what is to the collateral heir or legatee, or the stranger in blood, an unexpected, or at any rate a contingent, benefit or godsend. If the deceased had children who inherit, or if he makes a will and endows a college or a cat with his whole property, his kindred, whether near or remote, have no cause of complaint, and make none. If neither of these contingencies is fulfilled, the collateral heirs *expect* just what the law allows them, and no more. If there are four of them in the same degree of kinship, each one of them will expect only one quarter part of the amount which the law allows to be distributed. If there is but one, he will expect the whole sum *thus allowed*, and no more. The law of itself, therefore, determines the expectations of the collateral heirs or legatees; of course, it cannot falsify any

expectation, or create any disappointment or sense of hardship. As much cannot be said of any other tax whatever.

For these reasons, thinkers so eminent as Jeremy Bentham and John Stuart Mill have advised that, when there is no immediate heir and no will, the law should take *all*, — that the estate should escheat to the commonwealth, just as it now does if not even any collateral heirs can be found; and Mr. Mill would even restrict within very narrow limits, as has long been done in France, the right of any person to make a will. I do not go so far as this; for such a course, it might be feared, would considerably diminish the inducements to amass capital. But the very strong reasons alleged would certainly justify a considerable increase of the rates as now by law established. Even the direct heirs, though they expect, and have been bred up in the expectation, that the main property would be ultimately theirs, had no right to believe that they would come into possession in any particular month or year. The law, then, might fairly take what the clergy call "the first-fruits" of the estate, — that is, the first year's income of such portion of the property as defrayed the original holder's personal wants during the last year of his life, — thus leaving the heir in as good a position as he would have been, had his parent lived a year longer. This might equal, on an average, a 5 per cent inheritance tax for children or a widow. On the collateral heirs, the rate might be increased, as now, in proportion to remoteness of kinship, till it reached 15 or 20 per cent for those who were strangers in blood. A very large revenue might be thus obtained without burdening anybody, occasioning no discontent, at a minimum expense of collection, and with hardly a possibility of evasion, the tax covering not merely inheritances, but free gifts made in view of approaching death.

It is difficult to tell what proportion the direct ought to bear to the indirect taxes. The former are easily collected, do not frequently admit of evasion, and the burden of them falls in the main, as it ought, on property; but they are unpopular, because the demand of them by the tax-gatherer admits of no disguise or concealment. To avoid this odium, governments generally prefer, instead of taking openly a part of a man's income, to tax the articles on which this income is expended. These indirect taxes, as we have seen, because hidden in the enhanced price of com-

modities, seldom generate discontent, and are collected in driblets, in the manner most convenient to the contributors; but the burden of most of them falls much more on indigent and working people than on the opulent and middle classes. A man's consumption of the necessaries, and most of the comforts, of life is far from being proportioned to his income; it depends much more on the size of his family. Taxes on tea, coffee, sugar, distilled spirits, malt liquors, and tobacco, exact nearly as much from a person of very moderate means, earning perhaps not more than $1,000 a year, as from one whose income is forty or fifty times as large. The duties, levied exclusively for revenue purposes, on the first three of the articles here enumerated, and the excise on the other three, produced, in 1869, 120 millions of dollars, or more than one third of the whole sum then collected in taxes by the national government; and at least nine tenths of this enormous sum was a tax on the poor. Too large a share, moreover, of those duties which are levied in part to obtain revenue, and partly to protect domestic manufactures, falls on that portion, far the larger one, of the community who are least able to bear the burden. Thus, to mention only a few instances, the tax on the importation of plain cotton and woollen goods, on hides, leather, rice, and coal, on iron and lumber, — the effect of assessing these last two being to increase house-rent and the price of board, — takes far more from the aggregate earnings of the working classes than from the abundance of the rich. As in the cases cited before, it is a tax proportioned to population rather than to property.

The inequality and unfairness in distributing the burden of indirect taxes become still more striking, when it is considered that many of them are proportioned, not to the value of the articles assessed, but solely to their quantity. Specific taxes, as they are called, are levied at so much on the pound, yard, or bushel of the commodity, irrespective of the difference in quality and cost of its various sorts and kinds; while *ad valorem* taxes, as their name imports, are assessed proportionally to the value of the article, at so much per cent. Now nearly all the duties and excises mentioned in the preceding paragraph are specific. What is the consequence? The poor man's cup of inferior tea or coffee is taxed about 100 per cent of its value; the rich man's consumption of the more costly article pays only from 25 to 50 per cent.

And so in regard to the other commodities; exorbitant rates are levied on necessaries and comforts, while luxuries escape with a light tax. It is said, indeed, that taxes must be made specific, because, if *ad valorem*, they are subject to evasion through fraudulent appraisements. This is perfectly true; but it is little consolation for one who is unfairly taxed beyond his means, to be told that the Treasury could not easily collect so much revenue without committing this injustice. Government has no right to make justice subservient to expediency, or to sacrifice the interests of the contributors for its own convenience.

It does not follow from these considerations, that indirect taxes should never be imposed, or that they should never be made specific. When the exigencies of the country are great, and a large revenue must be had, recourse to such imposts is necessary, in order to divide and distribute the weight of taxation, the burden of which, if it fell all on one spot, would be intolerable. Mr. Baxter wittily compares the weight of taxation to that of a soldier's knapsack, which is supported, not by one, but many straps, in order to ease the pressure by dividing it between the back, chest, and shoulders. But the necessary inequality and unfairness of indirect and specific taxes on necessaries and comforts are a strong argument for limiting their number, for having recourse to them only in cases of emergency, and for compensating their burdensomeness to the laboring classes by direct taxation of property at ascending rates. The objections which may be made to a graduated income tax, or to heavy assessments on legacies and inheritances, cease to have any weight, when such direct taxation is regarded only as an offset to the greater pressure of indirect taxes upon the poor. Adam Smith's first principle of taxation is violated by taxes on necessary expenditures, inasmuch as they compel people to contribute in proportion, not to their abilities, but to their wants and imperative desires, in regard to which all men are equal.

Turn the matter as we may, any tax, taken by itself, is objectionable, and may oppress one portion of the community more than another. The best that can be done is to make a rough approximation to equality, by multiplying the kinds of taxation, and thereby so distribute the burden that no one class shall suffer more than another; and for this end, it will always be necessary

to place the heavier weight on the shoulders that are better able to bear it. The very fact that taxation is always unequal and oppressive, and, when considerable in amount, must be so apportioned as to distress the working classes, furnishes a strong argument for paying off the National Debt, instead of funding it with a view to permanency. Granted that it cannot be speedily paid off without assessing capital to a considerable extent; this is better than allowing it to continue forever as a tax upon industry.

Taxes upon banks are direct; the stockholders cannot throw the burden of them upon their customers by charging more for loans, since the rate of interest depends upon the average rate of profit throughout the country, and upon the spirit of enterprise in trade, both of which are independent of the action of the banks. Moreover, as already said, the stockholders are themselves, to a great extent, their own customers; for the varying demands of their business make them the most frequent applicants for loans. Persons of small means often invest their little capital in banks; but the larger portion of the stock in them is held by those who are best able to bear taxation. Especially the National Banks, in view of the immense gratuity which they have received from the government, and of the fact, that, ever since they were instituted, their average dividends, outside of taxes and all other demands, have been more than 10 per cent, ought to contribute far more than they now do to the national Treasury.

Even the taxes upon railroads must be regarded, at least to a considerable extent, as direct. They cannot be made good by demanding higher tolls for transportation, because, as repeated experience has shown, higher rates of charge are sure to be followed by more than a corresponding diminution in the amount of travel and traffic. As railroads in the United States, for many years, have yielded large profits, and their gains must increase with the rapid growth of the country in population and wealth, there is too great a rage for the construction of new ones in unpromising localities. It is doubtful, therefore, whether a heavy tax would not be a benefit rather than an injury to those already in operation, by discouraging competition from new lines, and keeping down fluctuations in railroad stocks.

We have now the materials for ascertaining, with some approach to correctness, the proportion of direct to indirect taxation in the United States. For reasons already given, only the internal taxes on income, stamps, legacies and successions, banks, articles in Schedule A, and railroads, can be regarded as direct. In 1869, the revenue from these sources amounted to about 61 millions. The customs duties, in the same year, yielded 180 millions in gold; reducing this to currency, allowing the average premium on gold to be 33⅓ per cent, and adding the remainder of the internal revenue, we have over 338 millions as the aggregate of indirect taxes. In other words, 15.25 per cent of the whole revenue obtained from taxation was derived from direct taxes, while the indirect yielded 84.75 per cent. In most countries of Continental Europe, according to Mr. Levi, the average proportion of direct to indirect taxation is 33.75 to 66.25 per cent; in England, he says, the proportion is 16.5 to 83.5. The proportion of indirect taxes in this country is evidently too large; it causes too much of the burden to fall on labor, and too little on capital.

It is not easy to say with certainty what induced the framers of the Constitution absolutely to prohibit taxes on exports. But as the clause which forbids them is immediately followed by the enactment, that "no preference shall be given, by any regulation of commerce or revenue, to the ports of one State over those of another," we may conjecture that their purpose was to secure equality of privileges to all the States. As some of the staple productions of the country, such as rice, sugar, tobacco, cotton, and hemp, are raised only in a portion of the States, a tax on exporting them, it was thought, would fall on those States alone. As it was supposed that the foreign demand for these commodities would be lessened by the enhancement of price occasioned by the tax, a serious injury to them would result. If we would sell to foreigners, we must aim to sell as cheaply as possible, or rival countries will obtain possession of the market by offering their goods at a lower price.

So they will, if the commodities taxed can be produced with equal advantage elsewhere. But if we have a virtual monopoly of the article, through exclusive or special advantages for producing it, and if foreigners are virtually unable to do without it, then an export duty is the most advantageous tax imaginable, as

it falls entirely upon the foreign purchaser. Thus, China has been able to collect a large revenue by an export duty on tea, without drawing a penny from the pockets of its own people; British India has done the same with opium, Peru with guano, and Naples with sulphur. British India receives four millions sterling, or nearly 20 millions of dollars, from its export duty on opium, the whole of which, of course, is really paid by the Chinese. Our American cotton is an article which European manufacturers must have, even at the price of sixty cents a pound in gold, which they were obliged to pay for it during the war. The cost of its production before the war was so low as to enable it to be sold at ten cents a pound; and the quality exported at this price was over 1,700 millions of pounds. How much the production will be diminished by the transition from slave to free labor, it is, of course, impossible to conjecture. But as the crop in 1869 had risen again to about 1,250 millions of pounds, it is a very reasonable estimate, that within a few years, the quantity exported may become two thirds as large as it was in 1860, though the expense of raising each pound should be doubled. Then an export duty of five cents a pound would produce a revenue of nearly 57 millions of dollars, and the article could still be offered in Liverpool market for twenty-five cents a pound. A heavier duty than this would probably reduce the demand, and make the cotton from British India a formidable competitor.

But then what becomes of the Constitutional prohibition of a duty on exports? To avoid straining any further the language of this great charter of our liberties, which, as recent experience seems to show, may be made to mean almost anything, or nothing, it seems that the end in view might be obtained without any export duty whatsoever. Lay an excise tax of five cents a pound on the production of raw cotton, and then allow a drawback of half, or the whole, of this impost on all that is manufactured or consumed within the country. With such an advantage, our cotton spinners and weavers could command the markets of the civilized world. An internal-revenue tax, first of two and a half, and afterwards of three, cents a pound on raw cotton was imposed, and the latter rate yielded, on an average for two years, over 23 millions annually, though the crop was then considerably smaller than it has since become. The amount thus obtained was nearly

the whole revenue derived in those years from the Southern States. But the tax was then repealed, from an over-hasty apprehension, as it seems, that it might impede domestic production and be an undesirable stimulus to the foreign cultivator.

One argument for heavy taxes on luxuries and articles of ornament and show has not received the attention it deserves. There is a remarkable exception to the principle, that cheapening the price will increase the demand, or augment the number of consumers. It is not true that purchasers will always buy what they can buy cheapest. If the pursuit of wealth, or, what is the same thing, the desire to make savings, were always the ruling motive, the principle would hold good. But it is not; in many instances, the ruling motive is, notoriously, not the love of gain, but the love of display. Through the rivalry of individuals in the display of wealth, some articles are prized only on account of their high cost. Cheapen them, and the demand for them by the rich will not be enlarged, but diminished; for the consumption of them will then be abandoned by this class of persons, who will immediately seek out other and more costly articles with which to gratify their love of ostentation. Render them very cheap, and they will go out of use altogether. If pearls were as common as oysters, pearl bracelets and brooches would never be manufactured. If equally serviceable articles of intrinsically higher cost cannot be found, the aid of that capricious goddess, Fashion, will be called in to create a factitious enhancement of the price of certain commodities. The demand for these commodities is, therefore, increased by the addition to their price; when cheap, they were neglected; when they have become scarce and high in price, they are eagerly sought after, and persons even of moderate means will submit to considerable sacrifices in order to obtain them. And the cases are neither few nor unimportant in which the rule is thus inverted. Most of the finer manufactures of cotton, wool, and silk, together with fine cutlery, expensive pieces of furniture, and nearly all the fancy articles which become articles of desire because they are fashionable, belong to this class. Lower their price, and the demand for them is diminished.

What Economists term *the demand* consists of two elements, — *the ability* to purchase, and the desire for the thing itself, or *the disposition* to purchase. These two must coexist in order to con-

stitute an *effectual* demand, and thus affect the price. In the case of the poorer classes, including persons of moderate means, it is the want of the former element, the ability, which limits the demand. In this case, then, lower the price, and the consumption is increased. But for people of wealth, it is the lack of the second element, the desire or disposition, which restricts the demand; to diminish the price will not increase their consumption of the commodity, but in most cases will lessen it, as the possession of the article will no longer be a token of wealth.

Obviously, then, in respect to all articles which are used only for purposes of ostentation and display, the only strong argument against a protective tariff, that it operates as a tax upon consumers by increasing the price of the commodities on which a duty is imposed, ceases to have any weight whatever. If the duty were removed, consumers would save nothing; they would abandon the use of the cheapened commodity, and seek out one of higher cost, not because it is of superior quality or convenience, but because its high price renders the possession of it a token of wealth. If fine cotton goods were so high in price as to content the love of display, costly silks would not be sought after, and the labor required for the production of them would be saved. An expensive cotton fabric gratifies the spirit of ostentation, of rivalry, of showing one's self as well off as one's neighbors, just as effectually as a cheap silk. Taxes upon this class of luxuries, then, *cost the community nothing;* the revenue thus obtained is an absolute saving. Even if the finest American cottons were 50 per cent dearer than English goods of the same quality, a duty of 50 per cent on the imported commodity would be no tax upon the consumer. *With the duty,* he would buy the American article at $1.50 a yard, and it would answer his only purpose, — would gratify his love of display. *Without the duty,* despising the cheaper article, he would purchase an English or French silk at $1.50 a yard, and would be no better off than in the other case; while the government would lose the whole proceeds of the tax, American manufactories would be stopped, and American workmen thrown out of employment.

I am no advocate of sumptuary laws for their own sake. But taxation itself being essential for the support of government, such an apportionment of the indirect taxes among various commodities

as will discourage idle, wasteful, and luxurious consumption, is clearly expedient and just. The aggregate amount expended in this country even for such articles of luxury as gratify taste, and are not used merely for purposes of ostentation, is increased by diminution of their price, and lessened by augmentation of that price. If, for instance, the price of the finer manufactures of cotton and wool should fall one half, people would purchase more than twice as many of them. There would then be no saving to the community, but an actual loss; for the aggregate expenditure of the country in such goods would be increased by the excess over what was enough to make up twice the former number of purchasers. On the other hand, double the price, and there would be less than half the former number of purchasers, and consequently a real saving to the community. If, then, we make the more costly manufactures for ourselves, instead of obtaining them from abroad, their price will be somewhat enhanced, there will be a somewhat smaller aggregate expenditure upon them, and the prices obtained in foreign markets for our exports will be increased by the diminution of our imports, and to the full extent of that diminution. Silks, very fine cottons and woollens, expensive cutlery, articles of *virtu* and *bijouterie*, and the like, are necessarily consumed unproductively; we gain nothing, we even lose, by cheapening them. If the wages of labor can be kept up by raising the prices of such articles, we gain all round.

Respecting the effect of customs duties in enhancing the price of imported goods, an important distinction is pointed out by the able Special Commissioner of the Revenue, Mr. D. A. Wells. If the demand for the imported article, he says, "be constant and nearly equal to the supply, the consumer, through the enhancement of price, pays the entire duty, and generally some small additional percentage in compensation to the importer for the advances made by him on account of the duties, or, as at the present time, in the way of insurance against fluctuations in the value of the currency. On the other hand, in case the supply of the imported article tends to exceed the demand," and this is the case at present with the supply of nearly all English manufactured articles, and "especially if demand is checked by reason of an enhancement of price resulting from an increase of the tariff, the importer will often abate prices in order to maintain his mar-

ket." The practical result in this case will be, that the payment of the duties will be divided more or less unequally between the foreign producer and the home consumer. Thus the heavy duty imposed in 1867 on some varieties of woollen goods so increased the stocks of them in foreign markets, "that prices receded to an extent nearly or quite equivalent to the increase of duties."

Customs duties on raw materials, imported for purposes of manufacture within the country, are so obviously inexpedient that they would never be imposed, except from a vague impression that the domestic producer ought to have an advantage equivalent to that which the domestic manufacturer obtains from the duty on the importation of the foreign manufactured article, or that any one article ought to be taxed about as much as another, in order that the aggregate burden of taxation might be equally distributed among all classes of the people. But this is the reasoning of ignorant or short-sighted persons, who cannot see that to impose duties indiscriminately is only to duplicate, or increase in some higher ratio, the burden of taxation, and to sacrifice many of its indirect advantages or compensations, without any gain to the Treasury. Duties upon imported raw materials are equivalent to a tax upon domestic manufactures; and this amounts to a tax upon the labor, especially the skilled labor, of the country, or to a general reduction of wages. England is indebted for the vast development of her manufactures to the great facilities which she has afforded for the importation of raw materials, — more even than to the large command which she has of some of these materials, such as iron and coal, at home. A tax upon such materials as cannot be produced at all within the country, though they are needed for the manufacture of other products, is a great discouragement to domestic industry without gain to anybody. Other raw materials would not be imported at all, if the domestic supply of them were not insufficient; and the fact that it is insufficient is attributable to the scarcity and high wages of labor.

The natural advantages of this country for raising any sort of crude material adapted to her soil and climate are so immense that she has no foreign competition to dread. The home producer is secure in his possession of the home market; he is on the spot where the article is needed, and the great bulk or weight, in proportion to their value, of such articles as lumber, salt, hides, pig-

iron, and even the coarser wools, prevent them from being brought from a distance, except at such cost as will afford him all the protection that he needs. To tax the importation of them is to enhance in two respects the price of the articles into which they are manufactured: first, by the additional cost of the raw material; and, secondly, by the higher protective duty which will then be needed to guard the home manufacturer against his rivals abroad. Thus the home producer of the raw material will have gained nothing; the higher price which he will have to pay for all manufactured goods will more than offset the advantage gained in disposing of his own products. To tax pig-iron, hides, and lumber 20 per cent will be to add 40 per cent to the cost of houses, implements, ships, boots and shoes, and every other article made out of these rude products. It will be to tax skilled industry twice over, for the sake of an imaginary benefit to rude labor.

The amount, estimated in gold coin, received from taxation by the government of the United States, for the year ending July, 1869, was almost exactly 300 millions. The corresponding amount for Great Britain and Ireland, excluding several sources of revenue which cannot properly be regarded as taxes, for the year ending April, 1869, was about 325 millions of dollars. But then the local taxation, only about 90 millions of dollars in the United Kingdom, is much greater in the United States. There are no means for estimating it with accuracy; but the aggregate of State and municipal taxation here cannot safely be taken at less than half of the amount levied by the national government; that is, it does not probably fall short of 150 millions in gold. Taking national and local taxation together, the rate *per capita* in England is $13.80; in the United States, assuming the population to be 39 millions, it is $11.54.

But the relative weight of taxation is to be estimated, not so much by the extent of the population on whom it rests, as by their comparative ability to bear it; this ability consisting partly in the wealth which they have already accumulated, but still more in the annual productiveness of their industry. Unquestionably the English people have amassed a much larger capital than ours; but there are strong reasons for believing that the aggregate amount of savings from income, or, in other words, the annual addition to previous capital, is now larger in the United States

than in any other country in the world. Nowhere else is industry so productive, nowhere else is so large a portion of the earnings of industry saved from unproductive consumption, and added to the accumulated fund which fosters and facilitates future labor and enterprise. The proof of this assertion might be safely rested on two facts alone: the first is, that the rate of interest, and, of course, the profits of capital, which are proportional to the rate of interest, are here twice as large as in Great Britain; and the second is, that the enormous expense of the war of the Great Rebellion was entirely defrayed out of the surplus earnings, — the *net* product of the national industry, — during the four years of its continuance. Now, taxes are necessarily paid out of this fund of annual savings; and the larger the fund, the more easily will the burden of taxation be supported. The mere amount of the burden, therefore, is not formidable, especially as the increase of population, more than keeping pace with the growth of opulence, is adding 35 per cent to the efficient strength of the country every ten years, and, of course, is lessening the pressure of the weight on any one person nearly in that proportion.

But there is another circumstance of equally great importance to be taken into view, in estimating ability to bear taxation. The wide distribution of wealth, which approaches equality here more nearly than in any other nation, makes Americans the most taxable people in the world; that is, a given tax, in proportion to the number and wealth of the people, will here yield more, without distressing anybody, and causing less discontent, than in any other country on the globe. A tax is more productive and less annoying, wherever the middle classes, or those who are neither very rich nor very poor, are relatively more numerous; the poor can bear but little, the rich are unwilling to support their share, because it is a large one; and there are, moreover, but few modes of taxation which take from the rich in anything like a full proportion to their means. Heavy taxes, if they are uniform, must bear heavily upon the very poor, whom they restrict in the use of the necessaries, and almost wholly deprive of the comforts and conveniences, of life. Hence, when the number of the poor is relatively large, such taxes cause great and well-founded discontent. On the other hand, the rich are jealous of taxation which is proportioned to their means, and especially of that from which the bulk of the

community are free; for, they argue, it partakes of the nature of confiscation of property, and even takes away one great inducement to industry, by discouraging the accumulation of wealth. Moreover, when riches, as they are in England, are mostly inherited, they bring with them a proportionate scale of expenditure and show, leaving a smaller surplus really at command of their owners than is possessed by many persons of comparatively moderate means. Reckoning the degree of poverty by the embarrassments and mortifications which it occasions, some of the poorest men in England are the holders of large and deeply mortgaged estates; and perhaps the sorest trials to which these are subjected are the visits of the tax-gatherer.

It would be hardly possible to exaggerate the difference between England and the United States in respect to the distribution of wealth. There, 60,000 persons own nearly all the land, and less than 250,000 possess four fifths of the whole property, both real and personal. Mr. Baxter, the latest and best authority on the subject, estimates that "the upper and middle classes," counting their families with them, contain but 22 per cent of the whole population, thus leaving over 23 millions for what he calls "the manual-labor class," who are either entirely dependent upon wages, or engaged in occupations in which their gains are as small as if they worked for hire. In the United States, the number in the corresponding class cannot be relatively more than half as large; and there are certainly more than 60,000 land-owners in New England alone.

But there are special causes which make heavy indirect taxation, whether by customs duties or excise, a serious evil for the United States. Great Britain is an island of limited dimensions and dense population, where the administration is thoroughly organized, and the police and preventive service are well drilled and efficient; there, consequently, it is comparatively easy to prevent smuggling, and even to make evasions of excise difficult and infrequent. On the other hand, the United States are of vast size, stretching across a broad continent, with a coast-line measuring several thousand miles, and a northern frontier of immense length, the boundary often being only a river or an imaginary line that can be easily crossed. With such a frontier, how can smuggling be prevented, especially when there is so much temptation for it as

is offered by a tariff imposing a duty on nearly all imported goods, the average rate being as high as 48 per cent? Under such circumstances, the people probably pay at least one fourth more for taxes on imports than the government receives.

Under the excise system, also, evasion and fraud are frequent, and probably can never be in any great degree prevented. A rigorous enforcement of internal taxation in such a country as the United States is impossible. The character of our institutions, and the habits of the people, require great freedom of action for every one; the restraints imposed must be few, and the perquisitions of the tax-gatherer slight. The police and other agents of the administration must not be too compactly organized and drilled, or too rigid in their demands; they must not carry their watchfulness too far. The legitimate consequence of the theory that the people govern themselves is, that in many respects they are but imperfectly governed. The inconveniences which result from this state of things ought not to be complained of; they are the price of democratic government. A loose and defective mode of collecting the revenue is inevitable. During the first four years after the war, for every dollar which the government collected from the excise on tobacco and distilled spirits, the consumers probably paid three dollars.

CHAPTER XIX.

EFFECTS OF SPECULATION ON PRICES: THE PHENOMENA OF A COMMERCIAL CRISIS.

THE Price of a thing may be defined to be its *present market value*, or temporary exchangeable power *reckoned in money*. Its permanent or natural *Exchangeable Value*, as we have already seen, depends on the *Cost of its Production*, and is the pivot about which the Price, or immediate market value, is perpetually oscillating, never departing from it far, or for any long time, in either direction. If the Price falls below the Cost, a smaller quantity of the article will be produced, and therefore, the Demand continuing the same, the Price will soon begin to rise. If the Price considerably exceeds the Cost, production will be stimulated, more of

the article will soon appear in the market, and then the Price will fall again.

The general principle is, that the Price so adjusts itself that the Demand shall be equal to the Supply. If the Supply be too great for the present Demand, — if the market be overstocked with the article, — a fall of Price must ensue; and this diminished Price will bring the commodity within the means of a larger number of consumers; that is, the Demand for it will be increased enough to take off the quantity which was a drug in the market at the higher Price. On the other hand, if the Demand should exceed the Supply, the Price will rise, and fewer people will then be able to purchase; that is, the Demand will be cut down to the level of the Supply.

If, for instance, flour should be ten dollars a barrel, it is beyond the means of a large class in the community, who will then be obliged to live on corn-meal and potatoes. We will suppose that only 600,000 barrels of flour can be sold at this Price, since this quantity will satisfy the wants of all who are able to pay ten dollars a barrel. But if the Price should fall to five dollars, the poorer class can purchase flour, and a million of barrels may consequently be disposed of. But if only 500,000 barrels should be brought to market, the competition of the buyers with each other will cause the Price to rise (say) from ten to twelve dollars. This enhancement of Price will so lessen the number who are able to buy, that now only half a million of barrels will be needed. Thus the fluctuations of Price are the means through which the Demand is always made just equal to the Supply.

We have already explained that the Demand consists of two elements, the disposition to purchase and the ability to purchase; and these two must coexist in order to constitute an effectual Demand, and thereby affect the Price. In like manner, it is only "the Supply" in a narrow and restricted sense, which will have the influence here explained. Not all the commodity which is in being, not all even of that portion of it which is intended sooner or later to be sold, constitutes what is properly termed the Supply. The word is restricted to that portion of the article which is already in the market, or is *now* offered for sale. The quantity held in store by speculators, awaiting an expected rise of Price,

has no more effect on the *present* market, than the portion which is already sold and is held in store only for consumption, — as when the government has purchased sufficient stores for the army six months in advance.

And even in reference to what is *now* offered for sale, it should be observed that the Price does not vary *in the same ratio* with the deficiency or excess of Supply. This depends upon the nature of the commodity, or rather upon the nature of the desire to possess it, — whether it be a natural and imperative want, or only an artificial one. If the article be a mere *luxury*, or desired only for the gratification of taste, a deficiency of one third in the amount offered for sale will not make the Price one third larger; rather than purchase it at a cost so much enhanced, many persons will do without it altogether. If the annual Supply of diamonds from the mines were reduced one half, it is not probable that the Price of them would be doubled, or even that it would be materially increased; as they are of little use except for purposes of display, persons would gratify their ostentatious feelings by purchasing some other commodity at a Price nearly equivalent to what they formerly paid for diamonds. Large pearls, or other gems of high cost, would answer just as well. On the other hand, if the article is a *necessary* of life, so that people will submit to any sacrifice rather than resign it, and especially if it be of such a nature that an apprehended scarcity of it operates strongly on the fears of the multitude, a deficiency of one third may double, triple, or quadruple the Price. "The Price of corn in England," says Mr. Tooke, "has risen from one hundred to two hundred per cent, when the utmost computed deficiency of the crops has not been more than between one sixth and one third below an average, and when that deficiency has been relieved by foreign supplies."

To what point, then, will the enhancement of Price in either case — whether of luxuries or necessaries — be carried? "To that point," says Mr. Mill, "whatever it be, which equalizes the Demand and Supply; — to the Price which cuts off the extra third from the Demand, or brings forward additional sellers sufficient to supply it." It appears, also, that articles of high cost, and therefore in comparatively limited demand, are more steady in Price; while those of prime necessity and in general use, such as breadstuffs and fuel, are liable to sudden and violent fluctuations.

The influence of mercantile speculations on Price has been well explained by McCulloch. "It rarely happens," he says, "that either the actual Supply of any species of produce in extensive demand, or the intensity of that Demand, can be exactly measured. Every transaction in which produce is bought that it may be afterward sold, is, in fact, *a speculation.* The buyer *anticipates* that the Demand for the article he has purchased will be such, at some future period, either more or less distant," or at some other place, either in the same country or across sea, "that he will be able to dispose of it at a profit; and the success of the speculation depends, it is evident, on the skill with which he has estimated the circumstances that will determine the future price of the commodity. It follows, therefore, that in all highly commercial countries, where merchants are possessed of large capitals, and where they are left to be guided in the use of them by their own discretion and foresight, the prices of commodities will frequently be very much influenced, not merely by the actual occurrence of changes in the accustomed relation of the Supply and Demand, but *by the anticipation of such changes.*

"It is the business of the merchant to acquaint himself with every circumstance affecting the particular description of commodities in which he deals. He endeavors to obtain, by means of an extensive correspondence, the earliest and most authentic information with respect to everything that may affect their Supply or Demand, or the Cost of their Production; and if he learned that the Supply of an article had failed, or that, owing to changes of fashion or to the opening of new channels of commerce, the Demand for it had been increased, he would most likely be disposed to become a buyer, in anticipation of profiting by the rise of Price, which, under the circumstances, could hardly fail of taking place; or if he were a holder of the article, he would refuse to part with it unless for a higher Price than he would previously have accepted. If the intelligence received by the merchant were of a contrary description, — if, for example, he learned that the article was now produced with greater facility, or that there was a falling off in the Demand for it, caused by a change of fashion, or by the shutting up of some of the markets to which it had previously been admitted, — he would act differently; in this case, he would anticipate a fall of prices, and would either decline purchasing the article

except at a reduced rate, or endeavor to get rid of it, supposing him to be a holder, by offering it at a lower Price. In consequence of these operations, the prices of commodities, in different places and periods, are brought comparatively near to equality. All abrupt transitions, from scarcity to abundance, and from abundance to scarcity, are avoided; an excess in one case is made to balance a deficiency in another, and the Supply is distributed with a degree of steadiness and regularity that could hardly have been deemed attainable."

All commerce, then, may be said to consist in speculation, if we leave out of view those operations which are more properly regarded as subsidiary to commerce than as forming a part of it; such as the actual transportation of commodities from one place to another, and breaking bulk, or selling by retail for the greater convenience of consumers. The rest is only buying or selling with a view to profit from an expected change of Price; and the success of the dealer will depend upon the correctness of his anticipations. Speculation, then, as McCulloch remarks, "is only another name for foresight." It plays an important part in those beneficent arrangements of Providence through which the cupidity and selfishness of individuals are made to minister to the general good. To recur to an instance already cited, it is through the speculations of private merchants that the inhabitants of a great metropolis are supplied with food and all other necessaries of life, without wastefulness, and yet without stint, each family receiving every day just what it wants, and as much as it wants, and being admonished, through the Price, to limit or economize its consumption of any one article, whenever a failure in the harvest or other mode of supply, or even the prospect of a failure, renders such economy essential.

The common prejudice against speculation arises, first, from confounding it with gambling, to which we must admit that it is very nearly allied, as the two operations run into one another by imperceptible degrees. A stock-jobber, for instance, agrees to purchase, at a future day, a particular amount of government stock at a certain price, expecting that the market price will rise before the day comes, so that he will make a profit by the bargain; the jobber who contracts to sell him the stock at that time, and on those terms, expects that the market price will fall in the mean

time. But the party who agrees to sell has really no stock to dispose of, and he who agrees to purchase does not expect to receive the stock, but only to receive or pay, on the day appointed, the difference between the actual market price and the price agreed upon. Obviously, this is only betting upon the rise or fall of stocks within a given period, and is therefore properly denounced as "gambling in the stocks." On the other hand, a flour-merchant agrees to purchase, at a fixed price, a cargo of flour which has not yet arrived in port, because he has been led to believe that the price will rise, while the person who sells it to him expects it will fall; and this is admitted to be fair speculation, or a legitimate operation of trade.

Speculation can be accurately distinguished from gambling, as it seems to me, only by taking into account the different motives and intentions of the parties. The gambler, acting from the love of excitement almost as much as from the thirst for gain, makes bets, or forms contracts which amount to bets, with reference to the doctrine of chances only, having no regard to the effect which his transaction will have upon markets by equalizing prices and supplies. The upright merchant, excluding as far as possible all consideration of mere chance, forms no bargain if his calculations do not assure him that it must lead to a favorable result; his transactions are all real, or based upon the actual transfer of merchandise, with reference to the effect of such transfer upon the markets in removing a surplus from one time or place, and supplying a deficiency in another. Accidents that could not be foreseen may falsify his calculations, and bring failure and loss; but he engages in no enterprise that bears hazard upon its face, regarding this as the province of the gambler. Failure, therefore, always takes him by surprise; and he shuns danger, while the other courts it, or deliberately weighs the probability of loss against that of gain.

Another prejudice against legitimate speculation in trade has arisen from its supposed effects in creating an *unnecessary* enhancement of Price, to the detriment of the consumers. This is a mistake; the speculator cannot raise prices unnecessarily, without injuring himself more than those who buy of him. Take, for instance, the strongest case, — the grain and flour trade. It is for the interest of the community that each crop should be dis-

tributed equally throughout the country, and throughout the year. The business of the grain-merchant is to equalize the supplies, and the more equal and perfect he makes this distribution, the larger is his profit. His interest, then, even in years of the greatest scarcity, is exactly coincident with that of the consumers. If the deficiency be very great, he sends to foreign countries for an additional supply, and thus contributes effectually to lower the price. If the harvest, on the other hand, has been unusually abundant, he exports a portion of the surplus, and thus prevents injury and discouragement to the agriculturists from the price falling too low, and guards the people against the formation of wasteful and improvident habits in consuming a cheap commodity. True, if he has a large stock on hand when the scarcity begins to be felt, he makes immense profits from the rise in price; and he sometimes holds back his stock in expectation of a further rise, though meanwhile the poorer classes are actually suffering from hunger. But in so doing, as Adam Smith remarks, he only treats the people in the same manner as the prudent master of a vessel often treats his crew. "When he foresees that provisions are likely to run short, he puts them upon short allowance. Though, from excess of caution, he should sometimes do this without any real necessity, yet all the inconveniences which his crew can thereby suffer are inconsiderable, in comparison of the danger, misery, and ruin to which they might sometimes be exposed by a less provident conduct. If he raises the price unnecessarily high, he becomes himself the greatest sufferer, as he runs the risk of losing a portion of his stock, by the natural decay of so perishable a material, and of being obliged to sell what remains of it at a much lower price than he might have obtained some months before. The profit which he makes when the price unexpectedly rises, from a failure of the crops, is only a fair compensation for the loss which he must suffer when the price unexpectedly falls. The average rate of profit cannot be higher in this trade than in any other, as the business is free to all, and as competition brings profits everywhere to a level."

It is not denied that prices are sometimes raised or lowered unnecessarily by the operations of speculators. Merchants, as well as other persons, are sometimes mistaken in their calculations. But the mistakes thus committed soon correct themselves;

they are usually of small extent and short duration, and they injure none so much as those who make them. When the error is discovered, the market experiences a revulsion, and prices for a time are depressed as much below their proper level as they were formerly, without due cause, elevated above it, so that the average result to the consumers is the same as if no disturbance had happened. When war was expected between England and China, in 1839, it was believed that the supply of tea would be almost entirely cut off; the whole supply in the market was therefore eagerly bought up by dealers and speculators, and prices advanced 100 per cent and upwards. But in less than three months, it was ascertained that the supply, by means of indirect shipments, cargoes being transshipped from American and Dutch to English vessels, would probably be as large as ever, while the consumption had been much diminished by the high price. There was, consequently, a violent reaction in the market, consumers obtained their tea cheaper than ever, and most of the speculators became bankrupts; they had injured nobody but themselves.

But apart from those mistakes of speculators which affect the price of only one or two articles, experience tells us that far more general errors are sometimes committed. A fever of speculation appears at times to seize upon the whole mercantile community, producing for a while an unnatural inflation of the prices of nearly all commodities, and then, with a sudden reaction, carrying them back to a point much below their former average, thus causing general distress, loss of confidence, and bankruptcy. These violent changes, from a period of great activity and seeming prosperity of trade to one of marked depression of prices and general inability to meet pecuniary engagements, are called Commercial Crises, and are among the most striking phenomena in the history of commerce. The state of trade, says Lord Overstone, "revolves apparently in an established cycle. First we find it in a state of quiescence, — next, improvement, — growing confidence, — prosperity, — excitement, — over-trading, — convulsion, — pressure, — stagnation, — distress, — ending again in quiescence." Experience does not seem to teach caution, or instruct merchants and speculators how to avoid a recurrence of the evil. These Crises are not of infrequent occurrence. Both in England and the United States,

they come round, on an average, about once in ten years. There was one in 1825, others in 1836, in 1847, in 1857, and in 1866. In the United States, the violent Crises of 1837 and 1857 compelled all the banks in the country to suspend specie payments.

When it is expected that circumstances will cause some commodity to rise in price, dealers in it enlarge their purchases, in order to profit by the alteration; and these additional purchases tend to raise the price still higher. Other speculators are then attracted into the business, and their operations cause a further advance. The price thus obtains an unnatural elevation, much above what would have been produced by the circumstances which first tended to raise it; and those who have accumulated a large stock of the commodity now become anxious to sell. This is the turning of the tide; the price ceases to advance, and even begins to decline. The holders rush into the market to avoid further loss, and their eagerness to sell carries down the price more rapidly than it rose.

The lessons of experience are of little use under such circumstances; for though it be generally perceived that the rise is merely speculative, and the reaction be foreseen, each dealer still wishes to hold back till the advance has reached its maximum, and to sell only when the decline is about to begin. A few succeed in choosing the right moment for disposing of their stock; but the sanguine wait for the tide to rise still higher, and are caught by the suddenness of the revulsion. A concurrence of circumstances may affect the price of several commodities at once; and then, partly from sympathy, partly from the excitement produced by seeing great fortunes quickly accumulated by the few who made large purchases at the right moment, the rise becomes general, and a fever for buying and selling almost any article appears to pervade the whole community. Many of those who now appear as buyers are not merchants, but persons engaged in other business, or living perhaps on fixed incomes, who speculate in the hope of suddenly increasing their fortune. "In speculation, as in most other things," says McCulloch, "one individual derives confidence from another. Such a one purchases or sells, not because he has any peculiar or accurate information in regard to the state of the Demand and Supply, but because some one else has done so before him." This interference of persons not experienced in business

tends, of course, to fan the excitement, and, when the recoil comes, to render the catastrophe more general and more ruinous.

Two theories prevail respecting the nature and causes of a Commercial Crisis. The first attributes nearly the whole evil to an unnecessary expansion of the currency, caused by the mismanagement of the banks, and undertakes to find a remedy by placing heavy restrictions upon the issue of bank-notes. The other regards the banks as necessarily passive in the matter, as they have nothing to do with buying or selling commodities, and finds the characteristic feature of the phenomenon in a great extension of the system of credit, which cannot be prevented by legislation, and which might take place, and, in fact, often has taken place, in countries where only a metallic currency was in use. The one party maintains, that an expansion of the currency always precedes a Commercial Crisis, and that it is this expansion which produces the rise of prices; the other affirms, that it is the rise of prices which produces what there is of an expansion, but that this increase of the currency, at the most, is inconsiderable; — that it is one of the attendant circumstances, or consequences, of the Crisis, but is not its cause. Their doctrine is, that prices rise first, and that there is a slight increase of the circulation some time afterwards.

I have already endeavored at some length to prove, that a *convertible* paper currency *cannot* be issued in excess; that the whole amount of money needed by the country is a fixed quantity, and it is not in the power of the banks, however disposed they may be to do so, to make any direct addition to the aggregate of circulating notes. The doctrine which attributes all the evils of excessive speculation to the excessive issues of the banks may be summed up in the oft-repeated, but mistaken, assertion, that "it is only the money in circulation that affects prices." Now it is certain and obvious, that the power of making extravagant purchases, and thereby enhancing prices and contributing to bring about a Commercial Crisis, does not at all depend upon the quantity of money, whether coin or bank-notes, that is in circulation. It might be exercised, as I have already shown, to any extent, though the currency were exclusively metallic, and even though there were no currency, so that all debts should be contracted, and all payments made, in kind, or by the delivery of specified

amounts of particular merchandise. An individual may purchase by giving in exchange either his own notes, or bank-notes; that is, he may buy with his own promises to pay, or with the bank's promises to pay. The *former* promises may be issued in great excess; there is, in fact, no limit to their amount. The *latter* cannot be issued in excess. There is a check — an instantaneous and decisive check — on the issue of bank-notes; specie or actual value may be demanded for them at any time at the bank counter; and such a demand is a certain consequence even of a slight excess in the issue. There is no check on the excessive issue of the notes of any private person, because they are given on time, — for six months, a year, or more. Specie cannot instantly be demanded for them.

Over-trading, or excessive speculation, arises from an abuse of the purchasing power, which every man possesses in a greater or less degree. "The amount of purchasing power which a person can exercise," says Mr. Mill, "is composed of all the money in his possession, or due to him, and of all his credit. He is tempted to exercise the whole of this power only under peculiar circumstances; but he always possesses it; and the portion of it at any time which he *does* exercise is the measure of the effect which he produces on prices." In fine, credit as much exceeds currency in its influence on prices, as the number of purchases on credit exceeds the number of purchases for cash; and in the dealings of merchants with each other, every one knows that this ratio is at least as one hundred to one. Under ordinary circumstances, most traders find no difficulty in extending their credit, so far as the purchase of goods is concerned, to any extent that they may think desirable. They may not be able to borrow or hire capital directly, but they can purchase merchandise on credit, as it is termed, with no other check than their own judgment of what is honest and safe. Thus, when the difficulties with China, in 1839, produced a speculation in tea, one dealer was known, "who, having a capital not exceeding £1,200, which was locked up in his business, had contrived to buy 4,000 chests, value above £80,000"; and this was done without the outlay of actual capital or currency in any shape.

But to this doctrine, that credit may be indefinitely extended without any expansion of the currency, it may be objected,

that credit is necessarily limited by the amount of disposable capital in the country; for no more capital can be borrowed than there is capital to lend. Exactly so; but then the instances given are, *nominally*, not loans, but purchases; and consequently, the limit to them is, not the amount of capital which is seeking a borrower, only interest being expended for it, but the amount of merchandise which is seeking a purchaser, and on which profits are expected. To buy on credit is only to borrow on the hard condition of paying for the sum borrowed, not merely the rate of interest, which is but six per cent, but the rate of profit, which equals at least ten or twelve per cent. Hence, a merchant, who would immediately refuse to lend a brother merchant $5,000 on interest for six months, will very readily sell him $50,000 worth of goods on six months' credit. Thus there is literally no limit to the expansion of credit; the whole amount of merchandise offered for sale, both in this country and in foreign lands, may be sold on credit, under the temptation of the high prices, and consequent expectations of large profits, which are caused by a speculating fever; and having been sold once in this manner, the purchasers may then sell them again to another set of speculators; and again, till their value is indefinitely multiplied. What a mountain of indebtedness may thus be created, without the intervention (at least, till some months have elapsed) of one dollar of currency, or even any demand upon the banks for additional loans! Large importations are only one mode of obtaining credit, or "borrowing money," as it is termed; and Commercial Crises are oftener produced by them than by any other means.

It is not the want of *money* which occasions distress and bankruptcy in a Commercial Crisis; for the returns show that the amount of the circulation is usually increased at such periods, though the difference, whether of excess or defect, is too slight to have any perceptible effect upon the markets. But the real cause of the distress is the insufficiency of the *disposable capital* in the market to meet the sudden increase in the demand for loans, which is occasioned when the time arrives for paying off the excessive purchases on credit that have been made during the fever of a general speculation. The notes of hand and bills of exchange, which were so freely and thoughtlessly given when prices were

advancing, and when it was expected that they would advance still higher, must come to maturity, usually in six months or less; and then come the pressure and the panic. As it was the unusual amount of these private "promises to pay," and the extravagance of the purchases in which they originated, that first produced the enhancement of prices, so now the demanded fulfilment of them causes prices to recede, makes speculators eager to sell, and multiplies the applications to banks and usurers for loans.

There is always a certain amount of Floating Capital in the market, seeking investment in loans. It is accumulated chiefly by savings from income, which are made by persons who are unwilling or unable to manage their capital for themselves by engaging in industrial enterprises, and therefore seek to lend it to others. A considerable portion of this floating fund is accumulated in the banks, making up both their capitals and deposits, and thus constituting far the larger part of what they are able to lend to their customers. Hence it is, that what are called the "loans and discounts" of the banks so largely exceed the amount of their circulation.

The other portion of Floating Capital, which is in the market seeking borrowers at varying rates of interest, but does not get into the banks, or is only lodged there temporarily on deposit, is much more fluctuating in amount, and is the real agent or subject of that "expansion" and "contraction" which are so much complained of. During the period of quiescence which follows a Commercial Crisis, people go on quietly making savings from income, and, having learned from recent woful experience the folly of new speculations and hazardous investments, they prefer not to engage in any enterprise on their own account, but only to lend their surplus funds on good mortgages or first-rate personal security, and, in this last case, only for short periods. But as almost everybody, at such a time, is afraid of speculation, new enterprises are not started, trade is quiet; and there is not, consequently, much demand for loans, and that little demand is fully supplied by the banks from their regular funds. Lenders then compete with each other, and strive to tempt merchants and manufacturers to borrow, by offering the use of capital at low rates of interest. Even the banks, under such circumstances, are sometimes compelled to re-

duce their rates of discount, in order to find borrowers and keep their capital employed.

Purchases of stocks which have been for some time in the market, whether in national or State loans, banks, manufactories, or railroads, have no effect in diminishing the amount of disposable capital in the loan-market, but only transfer the ownership of portions of it to other individuals. If A, who seeks to invest $50,000, cannot find a borrower who will take it on good security and pay him a satisfactory rate of interest for it, and finally decides to buy Reading Railroad bonds, or New York State stocks, he only transfers his $50,000 to B, who sells him these bonds or stocks, and who will now come into the loan-market to find a borrower for the funds which he has received. The supply of Floating Capital, then, will be just the same as before. If, however, a State, a city, or a railroad comes forward to contract a *new* loan, and thus issues an additional amount of stocks or bonds, the capital which it receives is permanently taken out of the loan-market, and expended, perhaps in constructing water-works, new roads, or other internal improvements.

I have already explained the phenomena of the gradual declension of the rate of profit, which takes place in every country as it advances in opulence, and gradually extends its enterprise over the whole field for the profitable employment of Fixed Capital. This declension is soon manifested in the loan-market, steadily operating against the rate of interest, and causing it, though with many fluctuations, to move slowly downwards. The savings from income, which, at first, for the most part, were invested as soon as made, either in constructing roads, docks, and canals, or in furnishing manufactories with costly machinery, are finally driven more and more into the market as Floating Capital, seeking borrowers; because it is found that the work of Fixed Capital is so nearly completed, that no farther application can be made of it except at great hazard, or with the prospect of very small dividends. After the loan-market becomes gorged, however, and the losses experienced in former speculations are gradually forgotten, the low rates of interest, and the facility of obtaining loans, again allure the multitude into hazardous enterprises. New schemes are brought forward, and old ones resuscitated. Docks, copper-mines, new railroads, laying out new cities, driving tunnels through mountains

and under rivers, and many similar undertakings, are proposed as excellent means of investing capital and obtaining large returns. Merchants catch the infection, and make large importations of goods. The scale of expenditure is enlarged, as people are tempted to spend in proportion to their expected gains; and thus prices begin to rise. The merits of every new scheme are so loudly trumpeted that those who first invested in them are enabled to sell out their shares at a high profit. The plethory of the loan-market is so far relieved that the rates of interest rise, and the cautious and prudent capitalists are as much delighted as the daring speculators.

After a time, the period of payment arrives. The notes, which have been given for heavy purchases on credit, come to maturity, and anxious borrowers find to their dismay that the tide in the market has turned, and there is now very little Floating Capital to be had, and that only at high rates. There is an immense increase in the demand for loans, and a great diminution of the supply, as many capitalists have caught the infection, and preferred to speculate with their funds, rather than to lend them on interest. The banks, indeed, continue to lend as usual, as their capital exists for no other purpose; but their means are strictly limited, and they can only supply the ordinary amount of accommodation to their customers, whose wants are sadly increased. They are besieged with applications which they cannot grant, and are then blamed for having first contributed to heighten the excitement, by offering loans at low rates some months before, and now refusing to lend except in small sums and on harder terms. The charge is wholly unjust; for by furnishing a steady supply to the loan-market, not enlarged in a period of speculation, nor diminished in a time of pressure, their operation is like that of the balance-wheel in a machine, tending to deaden the shock of transition, and to moderate both extremes. The difficulties which the speculators labor under compel them to make forced sales of their shares, or of the merchandise which they have bought at inordinate prices; and this eagerness to sell creates suspicion, and soon leads to an exposure of the rottenness of many of the schemes in which they have engaged. These fictitious values are destroyed, and their fancied wealth disappears like a dream. Public confidence being thus shaken, a general desire to *realize* property, as it is termed,

or to convert mere evidences of debt into coin or other actual possessions, ensues; and then follow many failures, and general agitation and distress.

It must not be supposed that reckless speculation is the only cause of disturbance in the loan-market, rendering the supply for a while inadequate to the demand. Physical or political causes, a failure of the crops, the breaking out of a war, or the return of peace, may create a sudden demand for capital to be sent abroad, which will so far lessen the quantity usually offered to borrowers as to occasion them serious inconvenience, and even to create a panic. "The Crisis of 1847," says Mr. Mill, "belonged to another class of mercantile phenomena. There occasionally happens a concurrence of circumstances tending to withdraw from the loan-market a considerable portion of the capital which usually supplies it. These circumstances, in the present case, were great foreign payments, (occasioned by the high price of cotton and the unprecedented importation of food,) together with the continual demands on the Circulating Capital of the country by railway calls and the loan transactions of railway companies, for the purpose of being converted into Fixed Capital and made unavailable for future lending. This combination of a fresh demand for loans with a curtailment of the capital disposable for them raised the rate of interest, and made it impossible to borrow except on the very best security. Some firms, therefore, which, by an improvident and unmercantile mode of conducting business, had allowed their capital to become either temporarily or permanently unavailable, became unable to command that perpetual renewal of credit which had previously enabled them to struggle on. These firms stopped payment; their failure involved, more or less deeply, many other firms which had trusted them; and, as usual in such cases, the general distrust, commonly called a panic, began to set in."

It has been shown, in the chapter on Banks and Bank Currency, that there are two sorts of customers of the Banks, the Creditor class and the Debtor class; and that the transactions between them are adjusted almost entirely by the movement of the Deposits, wholly irrespective of the Bank Circulation properly so-called. Strange as it may seem, the pressure of a severe Crisis serves rather to augment, than to diminish, the aggregate of Bank Deposits. Many persons of moderate means, who can

afford in ordinary times to keep a small sum in bank-bills in their own possession, are now compelled to part with them, in order to pay their debts or to purchase necessaries. The bank-bills thus pass into the hands of traders, who immediately pay them into the banks, and thereby increase the Deposits and somewhat diminish the active Circulation. Even if these traders have notes of their own to pay on the same day on which they receive the bills, they often prefer to lodge the bills in Bank in order to increase their deposit, and then pay their note with a check, which transfers this deposit to the credit account of their creditor.

We come now to the question, whether it is possible to make any such use of the Deposits as will alleviate the pressure of a panic, or what is usually called a Commercial Crisis. To alleviate the Crisis, we say; not to avert it, for that is impossible. Trade cannot exist without speculation, for all trade *is* speculation; and speculation cannot fail to become excessive, when credit is very easily granted, as it always must be in the period after one panic, when the Creditor class find that they have large Deposits lying idle, and when they consequently become eager to lend them, in order to obtain interest for their accumulations. As they were desirous, during the Crisis, to change their investments from *prospective private* debts to *immediate bank* debt, so now, after the Crisis, they are eager to obtain good private notes, payable on interest at a future day, instead of their unproductive Deposits. But when abundant credit is offered on easy terms, and prices are unusually low, as another consequence of the recent pressure, merchants will make large purchases, in the hope of profiting by a speedy rise of prices; and in this hope they are not disappointed, as these very purchases cause the expected rise. Others are thus incited to follow their example, and, speculation again becoming excessive, a panic ensues, and the former pressure in the money-market is renewed.

But the fact has not been sufficiently noticed, that the Creditor class of depositors are as much affected by this panic as the Debtors, and that their injudicious proceedings, when thus affected, greatly enhance the very evil which they dread. As the bill-holders, by making a run upon a bank whose credit is shaken, make the suspension inevitable which might otherwise be averted,

so the Creditor depositors, by allowing the notes due to them to mature without making further loans, cause many to become insolvent whose assets, under ordinary circumstances, would pay all their liabilities and leave a surplus. Mercantile debts are paid, as we have seen, only by a free circulation of the Deposits. But when the Creditor class refuse to make further loans, these Deposits accumulate in sluggish masses to their own credit, being seldom transferred on the bank books to the credit of the Debtor class, and every failure thus caused only enhances the difficulty. Because A cannot obtain a loan, he is unable to pay a debt to B, who is therefore also driven into insolvency; and his failure, by diminishing the receipts of C and D, obliges them also to fail. It is not unlikely that C and D may be largely indebted to the very same capitalist, or "creditor depositor," whose eagerness to change his funds from prospective private debt to immediate bank debt — or, in other words, to enlarge the amount of Deposits to his own credit — made him refuse the required loan to A, which might have saved him from failure, and thereby averted the failure of B, C, and D. Thus the capitalist, by refusing to make one loan on what he considers as doubtful security, may cause himself to lose twice as much through the subsequent failures which are thus necessitated. He can foresee this result, and act accordingly, if the chain of connection be only a short one. If, for instance, by lending $10,000 to A, he can see that it will enable A to pay B a note for $15,000, and thereby B will be enabled to pay $20,000 to himself, a regard for his own interest will induce him to make the loan, though on what he would otherwise regard as insufficient security. What are called "forced renewals" of a note are sufficiently common, and are of precisely this character. But if the chain of connection be a long one, extending through many persons, being unable to follow it, he is fearful lest, by making this doubtful loan, he will only enable B, C, D, E, etc. to pay their notes to other capitalists, so that all the benefit will accrue to them, and the only loss will be his own.

Yet nothing can be plainer than that, if he and all other creditor capitalists were willing to incur this hazard, — acting, in truth, on the principles of a mutual insurance company, — if they would lend, during a pressure in the money-market, to the same amount,

and on the same security, which would satisfy them in prosperous times, — then all unnecessary failures would be averted, and both the Debtor and Creditor classes would be equally benefited. Suppose, for instance, there were only three creditor capitalists, X, Y, and Z, and only six debtors, whom we will designate by the first six letters of the alphabet. If X would lend to A and B, and thereby enable them to pay Y and Z; if Y would lend to C and D, and thereby enable them to pay X and Z; and if Z would lend to E and F, and thereby enable them to pay X and Y, — the pressure and the panic would be greatly alleviated; for no failures could occur except of persons who could not offer reasonable security for loans, — that is, whose debts really exceeded their assets. And these *ought* to fail; a moderate pressure in the money-market, by winnowing such insolvents out of the trading community, would be a benefit, rather than an injury, to the whole number.

It is evident, from this analysis, that an association of all, or a greater part, of the creditor capitalists might do with perfect impunity what no one of them could accomplish without great hazard and loss. They might so far diminish the pressure and panic, that not a single merchant would be driven into insolvency by it, except his undoubted means were really smaller than his liabilities. All their deposits in the various banks being thrown into a common fund to the credit of this association, loans from this fund might be made, at the common risk, *to any extent whatever;* for any loan *out of* the fund would immediately occasion a corresponding payment *into* it of the same amount. The fund would thus be inexhaustible; for if managed with common prudence, — that is, if no loans were made except on fair security, or with reasonable prospect of repayment, — the profit or interest on the loans would suffice to pay all expenses, and still leave a reserve, or guaranty fund, which would offset the few bad debts that might be contracted.

Such an association might be called a Great Bank; but it would be one of a peculiar kind. It would be a bank performing the same function for the existing banks that these banks now perform for individuals, — that is, it would be, to use a mathematical expression, a bank raised to the second power, — Bank^2. The Bank of England, to some extent, is such an institution, as

it stands in precisely this relation to all the Private banks and the Joint-Stock banks in the city of London, all of which have Deposits in the Bank of England, which is thus enabled to make further loans on the strength of these Deposits, without depriving the depositing banks of the full use of their funds. Our proposed Bank, or Association of depositors, however, would be peculiar in another respect, in that it would require neither charter nor capital, would issue no bills, and would perform no function but that of making loans and circulating Deposits. It would not withdraw any funds or Deposits from the present banks, but would circulate and equalize these Deposits, keeping the share of each bank as strictly proportioned as it now is to its amount of business. Its functions would be very similar to those of the Clearing-House, and might perhaps be profitably added to the present operations of the Clearing-House, being conducted under the oversight of the same committee, or of one chosen by the associated depositors.

It appears from this explanation, that there is no good reason why merchants of undoubted solvency should find it any more difficult to pay their notes at one time than another. The fund which affords the means of paying them — i. e. the total amount of the Deposits — remains without material fluctuation throughout all conditions of the money-market; or rather, as we have seen, it is a little increased in a time of pressure. And the aggregate of this fund is not diminished by making payments out of it to any amount whatever; for though all commercial debts are paid *out of it*, they are by the same act paid *into it*, the operation of payment only shifting the names of the persons to whose credit a given portion of the fund is entered. But so long as the fund is owned and held (say) by a thousand different depositors, any one owner fears to lend during a crisis, lest the loan should diminish his share of the deposits, though it would thereby certainly increase the share of some other owner. But throw all the Deposits into one fund, intrusted to the management of one person or one institution, and, while each depositor may still retain the entire use and direction of his own deposits, the manager of the whole may make loans to any extent without subtracting a dollar from the aggregate. To obtain a loan, and therewith to pay a debt, is not to take away anything

from the total amount of the Deposits, but only to shift the distribution of them on the books, where they are entered to the credit of different persons.

CHAPTER XX.

THE DOCTRINE OF INTERNATIONAL EXCHANGES: THE LIMITS OF FREE TRADE AND THE PROTECTIVE SYSTEM.

It has now been shown that prices are determined by the relation of the Demand to the Supply, and that an extension of the market, or an increase of the Demand, can be obtained only by submitting to a fall of prices, so as to bring the article within the reach of a greater number of consumers. In any market, only a certain quantity of goods at a given Price can be consumed; if more goods are forced upon the market than it naturally requires, the Price must fall, and then the consumption may be very much increased.

It has also been proved, that we really purchase commodities with commodities; that we pay for our whole imports with our whole exports; that if, in our traffic with any one country, our imports much exceed our exports, then we pay the balance, not in money, but by transferring to that country the debt due to us from another country, with which our trade is such that our exports exceed our imports. It is only the balance of the immensely long "account-current" of our trade with all foreign countries whatsoever which is struck in money; and this cash balance cannot be more than an insignificant fraction of either side of the account.

The advocates for free trade have always insisted, that we must buy merchandise of England, not only to induce, but even to enable, England to buy merchandise of us; that we must buy of any country in order to sell to her, and must buy as much as we sell. But it is not so. It is not necessary that we should take enough of English manufactured goods to pay us for all the cotton, tobacco, and wheat which we sell to England. England is able, though of course she is not very willing, to pay us the balance in

tea from China, coffee from Brazil, hemp from Russia, or whatever other article, from whatever other country, we see fit to require. We can *compel* her to pay us in whatever commodities we may select; for the articles which we sell to England, cotton, tobacco, and wheat, are of prime necessity to her, and most of them she cannot obtain elsewhere. As our exports must pay for our imports, the only point to be considered is, *how we can dispose of the exports to most advantage, or obtain for them the largest return of the imports.*

The cost to us of our *domestic* products is, the labor that is expended upon their production. But the cost to us of *foreign* products is, not the labor which has been expended upon *their* production, but *the labor which we must expend upon the articles that are given in exchange for those products.*

"The advantage of an interchange of commodities between nations," says Mr. Mill, "consists simply and solely in this, — that it enables each to obtain, with a given amount of labor and capital, a greater quantity of all commodities taken together. This it accomplishes by enabling each, with a quantity of one commodity which has cost it so much labor and capital, to purchase a quantity of another commodity, which, if produced at home, would have required labor and capital to a greater amount. To render the importation of an article more advantageous than its production, it is not necessary that the foreign country should be able to produce it with less labor and capital than ourselves. We may even have a positive advantage in its production; but if we are so far favored by circumstances as to have a *still greater* positive advantage in the production of some other article which is in demand in the foreign country, we may be able to obtain a greater return to our labor and capital by employing none of it in producing the article in which our advantage is least, but devoting it all to the production of that in which our advantage is greatest, and giving this to the foreign country in exchange for the other. It is not a difference in the *absolute* cost of production, which determines the interchange, but a difference in the *comparative* cost."

The inhabitants of Barbadoes, for instance, favored by their tropical climate and fertile soil, can raise provisions cheaper than we can in the United States. And yet Barbadoes buys nearly all

her provisions from this country. Why is this so? Because, though Barbadoes has the advantage over us in the ability to raise provisions cheaply, she has a still greater advantage over us in her power to produce sugar and molasses. If she has an advantage of one quarter in raising provisions, she has an advantage of one half in regard to products exclusively tropical; and it is better for her to employ all her labor and capital in that branch of production in which her advantage is greatest. She can thus, by trading with us, obtain our breadstuffs and meat at a smaller expense of labor and capital than they cost ourselves. If, for instance, a barrel of flour cost *ten* days' labor in the United States, and only *eight* days' labor in Barbadoes, the people of Barbadoes can still profitably buy the flour from this country, if they can pay for it with sugar which cost them only *six* days' labor; and the people of this country can profitably sell them the flour, or buy from them the sugar, provided the sugar, if raised in the United States, would cost *eleven* days' labor. This is a striking example to show the benefit of foreign trade to both the countries which are parties to it. The United States receive sugar, which would have cost them eleven days' labor, by paying for it with flour which costs them but ten days. Barbadoes receives flour, which would have cost her eight days' labor, by paying for it with sugar which costs her but six days. If Barbadoes produced both commodities with greater facility, *but greater in precisely the same degree*, there would be no motive for interchange.

Now let us apply these principles to the trade between England and the United States. To simplify the matter, we will take but one article, *flour*, as representing *all* the commodities that America sells to England; and but one article, *cloth*, as representing *all* the goods which England sells to America. Suppose, on account of the respective advantages possessed by the two countries, that the production of one barrel of flour in England costs as much labor and capital as would suffice for the manufacture of *ten* yards of cloth; while in America, one barrel of flour can be produced for three fifths of its cost in England, — that is, for as much labor and capital as would, *in England*, manufacture only *six* yards of cloth.

Now, if a system of Free Trade between the two countries be established, the two commodities will be exchanged for each other

at the same rate both in England and America. The price will be equalized between the two countries; but at what point will it be equalized? Shall the English price be established in America, or shall the American price be established in England? Or shall a price intermediate between the two be established? Either of these three suppositions is possible. The Englishman can afford to give *ten* yards, for it will cost him that amount of labor and capital to produce the flour in his own country, or for himself. On the other hand, the American can afford to sell the flour for *six* yards, because this quantity of cloth, if produced in his own country, would cost him more than the flour. Suppose that, by the higgling of the market, the price in both countries is fixed at *seven* yards. The advantage of the trade is then shared between the two countries, but it is shared unequally. America gains *one* yard on each barrel, as she now receives seven yards of cloth for the labor which formerly produced but six; England gains *three* yards on each barrel, for the flour now costs her but seven yards a barrel, while it formerly cost her ten. We will suppose that, at these rates, America sells 100,000 barrels of flour to England, and receives in exchange, of course, 700,000 yards of cloth. The Demand on each side must be just sufficient to carry off the Supply received on the other. So long as England wants only this amount of flour, and the United States only this quantity of cloth, the interchange will continue at this rate, giving three fourths of the profit to Great Britain, and only one fourth to this country.

But suppose the Demand to vary in one of the two countries; suppose that England, on account of the increase of her population, now needs 150,000 barrels of flour, which America is perfectly able and willing to furnish. But England can pay for this larger purchase only by sending over more cloth; the United States, however, by the supposition, are fully supplied with the 700,000 yards which they received before; they cannot buy any more *at the old rate of seven yards for one barrel.* How, then, is England to obtain the additional quantity of flour that she needs? She has but one course to pursue; she must offer her cloth at a reduced price, knowing that this reduced price will bring it within the reach of a larger class of consumers. Instead of *seven*, she will now offer *nine* yards of cloth for a barrel of flour. At *this*

price, the Americans may be willing and able to buy 1,350,000 yards of cloth, which will furnish the 150,000 barrels of flour required by England; or, if we do not need this large quantity of cloth, England has only to sell this quantity, *at the reduced price*, to other countries, and obtain in exchange for it tea, coffee, sugar, and other products, which, *at this reduced price again*, we *do* need. If we do not receive the benefit of the change of price in *cloth*, we shall receive it in other commodities.

There is, indeed, one other mode by which England might obtain the additional quantity of flour required, without lowering the price of her cloth. Suppose that the demand of the United States for cloth had been kept down to 700,000 yards by a Protective Tariff, the revenue from which paid the expenses of the government, though it somewhat enhanced the price of cloth to the people. Suppose, further, that the government, learning that England was inclined to purchase more flour of us, in order to favor that inclination, should determine to abolish the Tariff, and admit cloth duty free, or at a nominal duty. Then, indeed, the demand for cloth might be so far increased, that England might obtain her 150,000 barrels of flour by paying for it at the rate of seven yards to a barrel. We should, indeed, sell the increased quantity of breadstuffs, but should receive for it only 1,050,000, instead of 1,350,000, yards of cloth. By this act of legislation, also, we should be obliged to pay the expenses of the government by direct taxation, should have our domestic manufactures ruined, and the profits of the agriculturists much diminished by the influx into their business, and the consequent competition, of the disbanded workmen from the manufactories.

America produces chiefly raw material, because she has the advantages of a more extensive territory and a more fertile soil; England produces chiefly manufactured goods, because she has the advantages of more capital, longer experience, and cheaper labor. Now the doctrine of Free Trade, (which is a perfectly sound and just doctrine, if applied to two countries that are similarly situated in every respect,) if applied in this case, would teach the Americans to give themselves exclusively to the production of raw material, and the English exclusively to manufactures, on the ground that each could purchase of the other what it would then need, more profitably than it could produce that article for itself. Let us

suppose that the Americans adopt this advice, and raise nothing but raw material. What will be the consequence?

As every civilized nation must consume more value vested in manufactured goods than in raw material, (without reckoning tea, coffee, and tropical products, which *must* be brought from abroad,) it is evident that we must be constantly pressed to purchase from foreign countries *more* than we can easily pay for by selling to them raw material. In order, then, to enlarge the foreign market for our cotton, tobacco, and flour, we must offer them on the most favorable terms. We must offer them at the *American* price, say of one hundred-weight for *six* pounds of manufactures, rather than at the *foreign* price, which they would otherwise naturally assume, of one hundred-weight for *ten* pounds. At this foreign price, it may be assumed, that we should procure only 200,000 pounds of manufactured goods, — not enough to supply our wants. But in order to *obtain* more, we must be able to *sell* more; and in order to sell more, we must offer the raw material at a lower price, so as to enable a greater number of foreigners to purchase it. The principle is, then, that whichever nation is under the strongest temptation or necessity to buy from others, — whichever needs to buy more value than it can readily sell, — *that* nation labors under a disadvantage in the traffic, and must offer its own commodities at the lowest possible price.

"At the lowest price which is possible," we say; for the theory shows clearly that there are limits beyond which the price can neither be elevated nor depressed. We cannot sell for less than six pounds, because the cost of producing a hundred-weight of raw material would, with all our disadvantages in manufacturing, enable us to manufacture six pounds of such goods for ourselves. Neither can we obtain more than ten pounds, because the labor and capital bestowed on eleven pounds of these goods would enable the English, in spite of their disadvantages in regard to raw produce, to raise one hundred-weight of it for themselves. Within these limits, then, is the sphere of operation of a Protective Tariff; beyond them is the sphere of Free Trade. Prohibitory duties are always unwise; for the object is to check consumption, not to destroy foreign trade.

The purpose of a Protective Tariff is to secure to each nation the use of its own natural advantages; or rather, to prevent it from

throwing these natural advantages away by too assiduous and exclusive cultivation of them, the effect of which would be, that the other arts and branches of industry would perish by neglect. A community cannot prosper by devoting all its energies to the cultivation of but one of the three great branches of industry. Devoted to agriculture alone, or to manufactures alone, or to commerce alone, it makes no difference; — in either case, it will have but one class of articles to sell, while it will have two classes of articles to purchase; — in either case, it will have a greater surplus *of one kind* to dispose of, than other nations will be willing or able to purchase, except at the lowest possible price; — and to sell at the lowest possible price, as we have now demonstrated, is to sacrifice the whole of the natural advantage with which we are endowed by Nature, and to put ourselves on a par with other countries in this respect, while we are below them in every other respect.

That the Protective policy here advocated is consistent with the doctrines of Political Economy, as that science is usually taught in Europe, must appear from the limitations of the theory already laid down, and from the fact that this theory is frankly accepted even by those English Economists who stoutly maintain the general doctrine of Free Trade. For proof, I quote from John Stuart Mill.

"If it be asked," he says, "what country draws to itself the greatest share of the advantages of any trade it carries on, the answer is, — the country for whose productions there is in other countries the greatest demand, and a demand the most susceptible of increase from additional cheapness. In so far as the productions of any country possess this property, the country obtains all foreign commodities at less cost. It gets its imports cheaper, the greater the intensity of the demand in foreign countries for its exports. *It also gets its imports cheaper, the less the extent and intensity of its own demand for them. The market is cheapest to those whose demand is small.* A country which desires few foreign productions, and only a limited quantity, while its own commodities are in great request in foreign countries, will obtain its limited imports at extremely small cost, — that is, in exchange for the produce of a very small quantity of its labor and capital."

Consequently, he argues, "the opening of a new branch of export trade; or an increase in the foreign demand for our products, either by the natural course of events, or by an abrogation

of duties; or *a check to our demand for foreign commodities by the laying on of import duties at home*, or of export duties elsewhere; — these, and all other events of similar tendency, would make our imports no longer a balance for our exports; and the countries which take our exports would be obliged to offer their commodities (specie among the rest) on cheaper terms, in order to re-establish the equation of demand; and thus we should obtain money cheaper, and acquire a generally higher rate of prices. Incidents the reverse of these would produce effects the reverse, — would reduce prices."

It appears, then, that it is even more for the interest of American planters and agriculturists, than of the manufacturers themselves, that duties should be laid on the importation of foreign manufactured goods, so as to restrict the amount of such importation. We thus purchase our imports more cheaply, or, what is the same thing, as commodities are actually bartered for commodities, we sell our exports at a higher price. The effect of the duty is, not to raise the price of the imported articles, but to cheapen them, the duty actually falling in great part upon the foreign manufacturer.

For instance: What would be the probable effect of raising the duty from 10 to 35 per cent upon all the imported articles which come in competition with American manufactures? Suppose the value of such articles did not exceed 200 millions; the other imports being of such commodities, — tea, coffee, drugs, raw materials, and the like, — that we should be obliged, under any circumstances, to purchase them of foreigners. Even if the heavier duty on the competing articles should reduce the amount imported to 100 millions, the revenue of our own government would be much increased by the alteration. But England, from whom we import most of the competing goods, would still need to obtain from us as much vegetable food, tobacco, and cotton as ever; and her sale of her own manufactures to the United States being diminished to the extent of 100 millions, she would be obliged to offer to all nations, the United States included, these manufactures, and other commodities also, at lower prices. Compelled to seek an extension of the foreign market for whatever she has to sell, she must submit to a reduction of price, in order to bring her commodities within the reach of a larger class of consumers.

American consumers, for instance, would not take even half as much as before, if the price in this country were enhanced to the full extent of the additional duty, — that is, 25 per cent. England would have to bear probably 15 per cent of this duty, or to reduce her prices in this proportion, leaving the American price to be enhanced 10 per cent, which would be encouragement enough to set additional manufactories in motion in the United States, so as to produce at home the 50 millions' worth cut off from our imports.

Already, then, we see the fallacy of the oft-repeated assertion by the advocates of Free Trade, that a protective duty raises the price both of the home commodity and of the foreign one which continues to be imported, to the full extent of that duty. If the impost be not so great as to be virtually prohibitive, — in which case we admit it would be impolitic, — the home price cannot be increased to the extent of more than one half, seldom more than two fifths, of the duty. Everywhere the inequality in the distribution of wealth is such, that the class of persons having an income, for instance, of $ 2,500 a year, is not, as we might be tempted by a superficial glance at the subject to believe, only 25 per cent less numerous than the class having $ 2,000 a year; but is probably not more than half as large. If, then, the price should rise to the full extent of the duty, say 25 per cent, the total consumption would not be more than half as great, as only those would buy who have an income at least one fourth larger than the smallest income possessed by any of the former purchasers; but a portion of what is consumed being now of home production, the importation of the article would fall off more than 50 per cent.

This reasoning, it is true, applies only to the somewhat finer and more costly articles of manufacture, for which alone a Protective duty is needed. In respect to breadstuffs and other articles of prime necessity, we have already seen that a very considerable enhancement of price is needed, in order materially to lessen the consumption. The sale of the cheaper and more common products of manufacturing industry, also, may not be much checked by an addition of 20 or 30 per cent to their price, as their cost forms but a small part of the total expenditure of any class of persons. But the principle holds true in the only cases in which we need to apply it.

The situation of the United States is so peculiar, that arguments drawn from European experience for the guidance of American legislation are apt to be wholly fallacious and unsound. We can more profitably go for a lesson to the other side of the habitable globe; I mean, to British India. There we find a deficiency of capital, an abundance of fertile territory, a consequent surplus of agricultural produce, and a lack of that skill in manufacture which can only be gained by long experience under a strict Protective policy, such as England has enjoyed for nearly two centuries; — all these circumstances strongly reminding us of corresponding features in our own condition. Now, the Governor of India, in a correspondence with the East India Company on the subject of the Dacca weavers, made this statement: "Some years ago, the East India Company annually received of the produce of the looms of India to the amount of six to eight million pieces of cotton goods. The demand gradually fell, and has now ceased altogether. European skill and machinery have superseded the produce of India. Cotton piece-goods, for ages the staple manufacture of India, seem forever lost; *and the present suffering to numerous classes in India is scarcely to be paralleled in the history of commerce.*"

This example throws light upon another reason, already urged in another place, for the establishment of a Protective policy in America, as well as in India; — I mean, the great difference in the cost of transportation between raw materials and manufactured goods, which operates greatly to the advantage of the country producing the latter, because manufactures have much the greater value in the smaller weight and bulk. Rice, wheat, cotton, and sugar are among what might be called the greatest natural exports of India, as they are produced there very cheaply in great abundance. The average price of wheat at Calcutta is less than fifty cents a bushel; but the freight and other charges of transporting that bushel to England, and selling it there, amount to about eighty cents. England, therefore, though she has abolished her corn laws, enjoys a virtual Protective duty against wheat from India, amounting to 160 per cent. The cost of transporting English manufactured goods to India cannot, on an average, exceed 40 per cent of their value. The difference between these two rates, amounting to 120 per cent, is, of course,

really prohibitive in its effects; and India wheat is not brought to England at all.

The difference in the cost of transporting raw materials and manufactured goods across the Atlantic is certainly not so great as in sending them round the Cape of Good Hope; but it is enough to give a very important advantage to the traffic to England. Our chief article of export, raw cotton, is a very bulky one; and even breadstuffs and tobacco are more expensive, both for land and sea carriage, than the cheapest manufactures of the loom. On the very principles of Free Trade, which means nothing but trade with equal advantages to the two parties, we ought to levy a considerable Protective duty, in order to make up the difference in the cost of transportation.

I have already alluded to the fact, that a Protective duty, being designed as a check to injurious *fluctuations* of price, is graduated with reference to the *lowest* price at which the foreign commodity is ever sold, and not with reference to the *average* price. Thus, a duty of thirty, may not raise the average price more than fifteen, per cent; and this last may be the whole amount of *real* protection that the American manufacturer needs. But to secure this protection at all times, the duty must be fixed at thirty per cent, because circumstances may sometimes force the foreign commodity upon the market at a price fifteen per cent below its ordinary value. Thus, a temporary excess of production, or the reaction after a commercial crisis, may flood the English market, for a while, with manufactured goods. These must be got rid of, even at a great sacrifice; and their owners prefer to send them abroad to be sold, rather than to lower prices by forced sales in the home market. Hence, foreigners can often purchase British manufactures at a less price than the English themselves. The injurious effect of a forced sale is thereby only transferred from the English to the American market. Prices here may be depressed to a ruinous extent for a time, only to recover their former level, or even to rise above it, after the mischief has been done of driving American manufactures out of the business. The proper object of legislation, in regard to the admission of imports, is to prevent injurious fluctuations of prices.

The disturbing effect produced by a temporary glut of the imported commodity may be much larger than its cause would

seem to warrant; for the quantity thus thrown upon the market need not be large. But, as we have seen, taking away a third part of the supply may either double the price, or fail to raise it even one sixth, according as the article is one of prime necessity, or one which people can easily do without. In like manner, making the stock of goods on hand one third larger than usual may sink the price, not merely in proportion to that increase, but to one half of its former amount. Then the whole stock, both foreign and domestic, must be sold at this ruinous sacrifice.

"To give the monopoly of the home market," says Adam Smith, "to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be bought there as cheaply as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom."

The comparison of individuals with communities is often a faulty and deceptive one, and is particularly so in this case. Certainly it would be unwise in an individual to be his own weaver, tailor, carpenter, and blacksmith; he would thus lose all the advantages of a Division of Labor, and would not become skilled in any department. But this objection does not hold in the case of a community, which has only a fictitious unity, and is really made up of many individuals, who may distribute among themselves all the employments which are requisite for the production of all the commodities that the society needs. No one person is thus required to practise more than one art, and the Division of Labor among these individuals is as perfect as if the same number of trades were partitioned out among so many distinct communities. Still more, as communities are often separated from each other by broad tracts of sea or land, should each one confine its industry to the production of a single commodity, and purchase whatever else

it needs from rival states, all its articles of consumption, one alone excepted, would come to it burdened with a heavy cost of transportation; and the sale of its own single product everywhere but at home would be impeded by an addition to its cost from the same cause. All the advantages of a Division of Labor result from a separation of employments *among individuals*, and become disadvantages *in the case of distinct states, counties, and even towns.* To one who is a blacksmith, it is no help, but rather a hindrance, that his next-door neighbor is a blacksmith also; he has thus a competitor in satisfying the wants of his own village, where every mechanic finds his best and most profitable customers; and as blacksmiths' work is heavy, he cannot carry his wares for sale even to the next county or town without lessening his profits.

The inhabitants of every country town understand their own interests much better than Adam Smith did. Instead of forming themselves into a settlement composed exclusively of artisans of one trade, each community has its own mason, shoemaker, carpenter, shopkeeper, lawyer, doctor, and clergyman, and is thus not obliged to send a dozen or twenty miles in order to have a horse shod, a chimney built, a tooth pulled, or a marriage celebrated. A Yankee farmer, with half a dozen stout sons, acts upon the same principle, in not educating them all to his own employment, but making a mechanic of one, a merchant of another, a sailor of a third, sending a fourth to college, and keeping only one at home to be his own successor upon the farm. As all occupations are precarious, he knows that, by this course, he multiplies the chances of success, or reduces the chances of failure, for the whole family, besides suiting each member of it with an employment best adapted to his peculiar powers and inclination.

We may ask if it be not as reasonable for a nation, as it confessedly is for an individual, to enter upon a course of education, or serve an apprenticeship. During the period of discipline, the gains will be small, the labor severe, and perhaps the expenses heavy; but an art or handicraft may thus be acquired which may afterwards be exercised with great profit. We suppose that the art is one for which the individual or the nation is sufficiently qualified by nature, so that merely the tact and dexterity, which can only be acquired by practice, are wanting. The common answer to this question, "that when the proper time has arrived, and sufficient

capital has been accumulated, manufactures will introduce themselves without the aid of Protective duties," is evasive and insufficient. It supposes that want of capital is the only obstacle to the immediate commencement of manufacturing enterprise; whereas skill is also requisite. Capital, we admit, may be accumulated in agriculture and other pursuits; but skill can be acquired only by actual experiments in manufacture, and those experiments can be tried only at considerable sacrifice. Individuals cannot be expected to make these sacrifices, when the results of the experiment, if successful, will not accrue to their exclusive advantage, but will be open to all.

Even in Great Britain, these principles are carried into practical application, through the encouragement afforded to authors and inventors, by securing to them, for a limited period, the exclusive right to sell their respective writings and discoveries. Patents and copyrights, which no one thinks it improper to grant, are signal instances of the successful application of the principles of the Protective system. They are strict monopolies, no one but the author or inventor, and his agents, being allowed to manufacture or sell the particular book or machine which is thus protected. Consequently, they are prohibitive rather than protective duties; any price can be set upon the articles which the owner of the patent or copyright sees fit to demand. And the public cheerfully pay the addition thus made to the natural cost of the commodity, knowing that, without such encouragement, few good books would be written and few useful machines invented; and that, at the expiration of a limited time, the right to make and vend the work will become general, and the community will then be the richer by the whole value of the original proprietor's genius and labor.

The reasonableness of granting patent rights and copyrights is frankly admitted by an able advocate of Free Trade, Mr. J. S. Mill. This, he says, is not making the commodity dear for the benefit of the patentee, but merely postponing a part of the increased cheapness which the public owe to the inventor, in order to compensate and reward him for the service. Having conceded thus much, he finds himself obliged, by consistency of reasoning, to make the following additional admission, which really covers the whole ground usually claimed by the advocates of a Protective system in the United States. "The only case," he says, "in

which, on mere principles of Political Economy, protecting duties can be defensible, is when they are imposed temporarily, (especially in a young and rising nation,) in hopes of naturalizing a foreign industry in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production often arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field; and besides, it is a just remark, that nothing has a greater tendency to promote improvements in any branch of production, than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burden of carrying it on, until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment."

But on this great question between Free Trade and a Protective policy, these arguments relating only to pecuniary loss or gain are not so weighty as the considerations, previously adduced, respecting the devotion of the greater part of the people to skilled or rude labor, and their consequent collection in towns and cities, or wide dispersion over the face of the country. Viewed in this light, I confess, the question seems to be one between progress in civilization and the arts, or a gradual return, I will not say to barbarism, but to that very imperfect stage of civilization which exists in all countries where the population are almost exclusively devoted to agriculture. The best legislative policy is that which will most effectually develop all the natural advantages of a country, whether mental or material. It is as wasteful, to say the least, to allow mechanical skill and inventive genius to remain unemployed, as it would be to permit water-power to run without turning mills, or mineral wealth to continue in the ore, or forests to wave where cotton and grain might grow luxuriantly. If the rude labor of husbandry is to form the principal employment of

the people, the higher remuneration of skilled labor in the arts must be sacrificed; and this would be as bad economy as to turn our richest soils into sheep-pastures, or to feed cattle upon the finest wheat. The dispersion of the inhabitants over vast tracts of territory, in the isolated pursuits of agriculture, the great majority of them being doomed to work which would not tax the mental resources of a Feejee-Islander, must be fatal, not only to the growth of wealth, but to many of the higher interests of humanity. The hardships and privations of a life in the backwoods are a fearful drawback upon that bounty which confers, as a free gift, a homestead farm with a soil that reproduces the seed a hundred-fold. To give full scope to all the varieties of taste, genius, and temperament; to foster inventive talent; to afford adequate encouragement to all the arts, whether mechanical or those which are usually distinguished as the fine arts; to concentrate the people, or to bring as large a portion of them as possible within the sphere of the humanizing influences, and larger means of mental culture and social improvement, which can be found only in cities and large towns, — these are objects which deserve at least as much attention, as the inquiry where we can purchase calicoes cheapest, or how great pecuniary sacrifice must be made before we can manufacture railroad iron for ourselves. I see not how these ends can be obtained in a country like ours, which is, so to speak, cursed with great advantages for agriculture, emigration, and the segregation of the people from each other, without throwing over our manufacturing industry, at least for half a century longer, the broad shield of an effective Protecting Tariff. When we have enjoyed, as England has already enjoyed, the benefit of a strict Protective policy for over a century, for the purpose of completing our education in manufactures, then we shall be ready to do what England at last has done, — to throw down all barriers, and to invite the world to compete with us in the application of industry and skill to any enterprise designed to satisfy the wants of man.

THE END.

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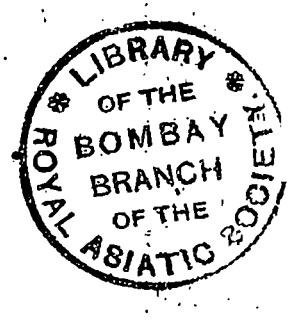
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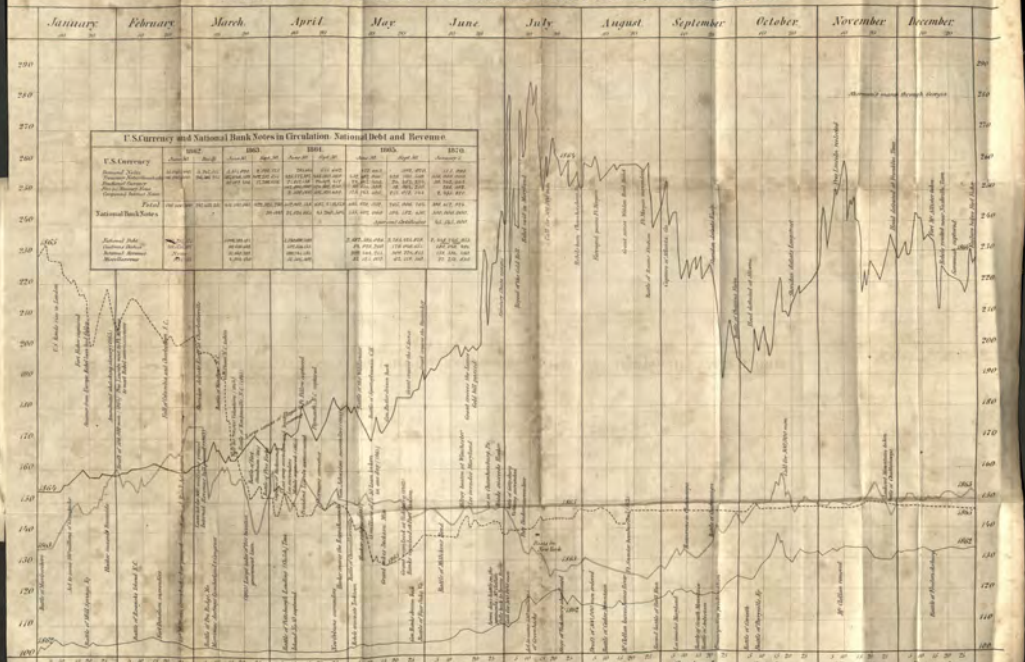

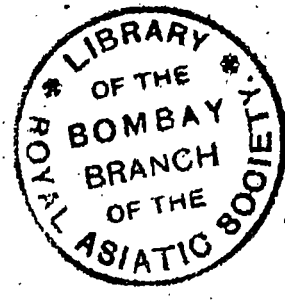
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